Investment incentives in the MED region

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Governments in the Middle East and North Africa widely use tax and financial incentives to attract investment and direct it into certain sectors, activities and locations. This background note presents original research mapping investment incentives granted in eight economies of the Southern Mediterranean (MED) region, including the types of instruments used and the extent to which they target certain sectors, activities and locations. The results reflect tax and financial incentives detailed in national tax codes, investment laws, and in publicly-available documents published by investment promotion agencies, ministries of finance and economic zones.

The background note has been prepared for the regional seminar "Improving the use of investment incentives in the MED region", held on 1-2 July 2019 in Amman, Jordan. This workshop is part of the EU-OECD Programme on Promoting Investment in the Mediterranean, launched in October 2016, which aims to support the implementation of sound investment policies and effective institutions in the Southern Mediterranean region.

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EU-OECD PROGRAMME ON PROMOTING INVESTMENT in the Mediterranean

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Governments in the Middle East and North Africa, as in most developing and emerging economies, widely use tax and financial incentives to attract private investment and direct it into certain sectors, activities and locations. Incentives are measures that seek to influence an investment project, by affecting its relative cost or by altering the risks attached to it (OECD, 2019[1]). For many governments, it is simpler and more immediate to provide incentives than to correct deficiencies in the investment climate.

Benefits to firms are often generous. Among eight economies in the Southern Mediterranean (MED)[1], all offer tax holidays – total exemptions from corporate income tax (CIT) – to select investors. These range from, on average, eight years for firms in certain locations to 13 years for investment in key sectors. All but two countries (Jordan and Tunisia) offer permanent CIT exemptions to eligible investors, and half grant permanently-reduced corporate tax rates. All countries also grant some indefinite exemptions on indirect taxes (including VAT and customs duties). Though used less frequently than tax benefits, all countries in the region but Libya offer a range of financial incentives, including land discounts and grants for equipment, training and infrastructure.

The prevalence of investment incentives belies research on their effectiveness at attracting investment. Economic studies suggest that tax incentives to firms are one, and often not the determining, factor for their investment decisions, and revenue forgone to the state frequently makes such incentives cost ineffective (OECD, 2015[2]) (IMF-OECD-UN-World Bank, 2015[3]). Several governments in the MED region have taken steps to reduce the length of tax holidays and number of firms eligible for them. But profit-based incentives (tax holidays and tax rate reductions) remain generous and are often easy for firms to receive, with broad eligibility requirements such as investment in any industrial sector. On average, MED economies offer more permanent exemptions and longer tax holidays (14.6 years) than ASEAN countries (11 years), yet receive lower levels of FDI. This highlights the importance of the overall investment climate for attracting firms, and raises questions about the merits of generous, broad-based incentives.

Coordinating granting of tax incentives at the regional level would help address potentially harmful tax competition. At minimum, governments should consider using tax incentives in a smarter way. Targeted investment incentives may, in some cases, correct for market failures or advance development goals. For example, tax benefits could reduce costs for investment in green energy, or help bring new jobs to an underdeveloped region. Most simply, for an incentive programme to contribute to a country's economic welfare, its benefits should exceed its costs. Cost-benefit analysis prior to introducing incentives, and monitoring ex-post, can help governments assess the extent to which, and at what cost, incentives meet their intended objectives (OECD, 2015[2]).

This issues note presents original research mapping investment incentives granted in eight MED economies, including the types of instruments used and the extent to which they

[1] The report covers eight economies involved in the EU-OECD Programme on Promoting Investment in the Mediterranean: Algeria, Egypt, Jordan, Lebanon, Libya, Morocco, the Palestinian Authority (PA) and Tunisia, referred throughout the report as the Southern Mediterranean (MED) region.

target certain sectors, activities and locations. The results reflect tax and financial incentives detailed in national tax codes, investment laws, and in publicly-available documents published by investment promotion agencies, ministries of finance and economic zones.[2] The data do not take into account any additional benefits firms may receive through one-off contracts with national governments, as these are not publicly available.

The information updates and builds on the OECD's previous preliminary research on incentives in the MED region. It provides a more detailed picture of: the types of incentives offered, their stated goals (targeting), amount and length, legal basis, and authorities' discretion in granting them. This information, compiled in a new database, allows for a more comprehensive comparison across countries and analysis of trends in the region.[3]

Investment incentive instruments

Statutory corporate income tax (CIT) rates are the first reference point for foreign and domestic investors when evaluating the tax treatment of a jurisdiction. But it is the entire tax regime – including various forms of tax incentives – which determines the tax liability of businesses or incentives to invest. The most common types of tax incentives used in the MED region, and in developing and emerging markets, are: corporate tax holidays (periods during which an investment is fully exempt from corporate taxation), reduced corporate tax rates, and tax deductions and credits (provisions to subtract certain expenses from taxable income or directly from tax liability). Beyond incentives directly affecting corporate income taxes, exemptions from indirect taxes, including import and export duties and value added tax (VAT), are commonly used (OECD, 2019[1]).

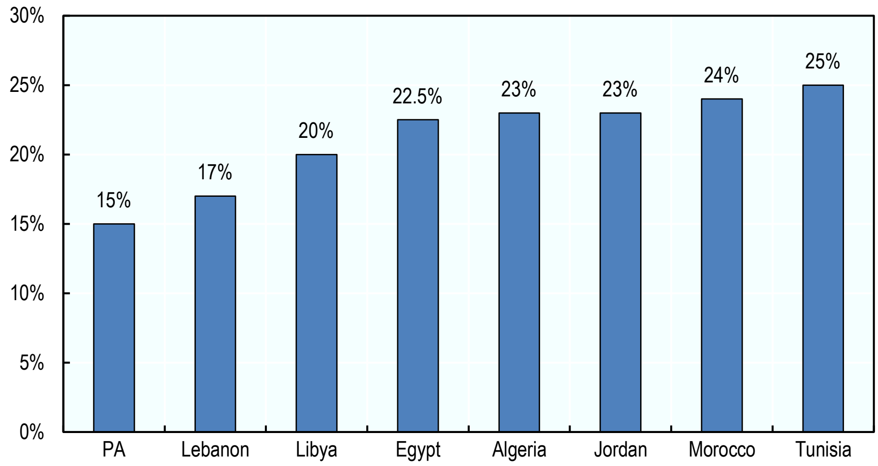
The average standard CIT rate in the MED region is 21%, ranging from 15% (Palestinian Authority) to 25% (Tunisia) (see Figure 1).[4] This is slightly lower than the average CIT rate in OECD (25%) and ASEAN countries (23%) (OECD, 2019[1]). Several MED economies set different rates for different sectors, and Morocco uses a progressive rate (between 10-31% depending on revenue). Only Lebanon grants a special rate for branches of foreign firms, at 10%.

[2] The mapping covers tax and financial incentives (defined as grants, loans or other expenditure to lower the cost of investment), not administrative or other non-financial incentives. Beyond the sources listed above, tax guides from PwC, EY and Deloitte were also consulted.

[3] This work will feed into the OECD's ongoing work on tax incentives for investment. Future research will allow for more rigorous cross-country comparison and support examination of the impacts of incentives on foregone revenues, investment attraction and broader development outcomes.

[4] The calculation uses average rates of different sectors in Algeria and Jordan, and Morocco.

Figure 1. Standard CIT rates in MED



Note: Rates as of 2018. Standard CIT figures for Algeria and Jordan show the simple average of standard rates for different sectors, Morocco shows the simple average of progressive rates.
Source: OECD based on national legislation and (EY, 2018[4]).

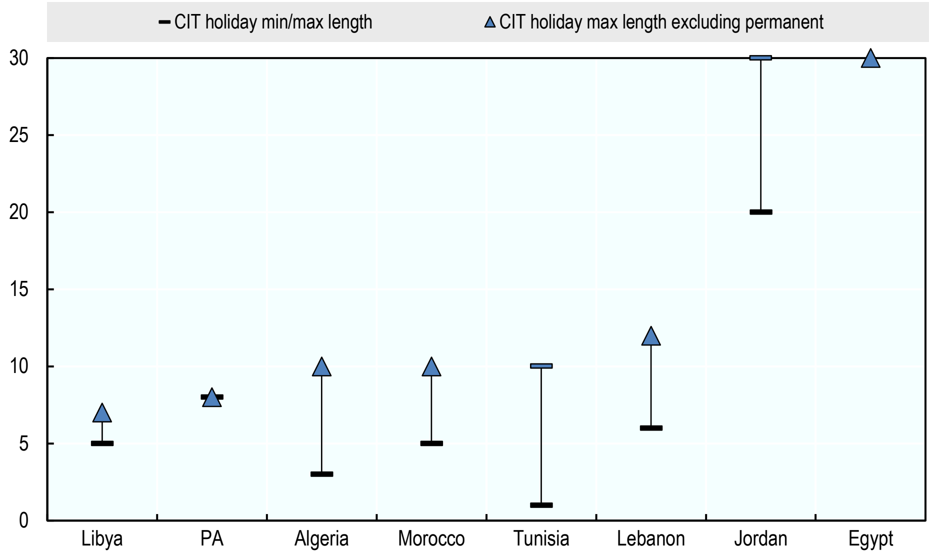
All MED economies provide income tax holidays

A corporate tax holiday is a complete exemption from taxation of corporate incomes, usually over a defined period of time, starting at the beginning of the investment lifecycle. The broad consensus among international institutions is that tax holidays are one of the most distortive tax incentives (IMF-OECD-UN-World Bank, 2015[3]) (OECD, 2015[2]). Along with corporate income tax reductions or partial income exemptions, tax holidays are profit-based incentives: they are determined as a percentage of profit and benefit firms that are already profitable. These industries are often the least in need of government support, and therefore might be more likely to have invested without the incentive (IMF-OECD-UN-World Bank, 2015[3]). Profit-based incentives also support projects with low up-front costs, which tend to be mobile. These benefits do not necessarily provide impetus for firms to stay and contribute positive spill-overs to the economy (Klemm and Van Parys, 2012[5]).

All eight economies in the MED region offer tax holidays to eligible investors. All but two (Jordan and Tunisia) grant permanent CIT exemptions to select firms. Eligible investments include projects in agriculture (Algeria, Morocco and PA), export-oriented sectors or in free and economic zones (Algeria, Egypt, Lebanon and Libya), and capital risk, offshore and holding companies (Lebanon and Morocco). Excluding indefinite exemptions, the maximum length of tax holidays (including extensions) is similar across countries at around 10 years. Jordan offers the longest exemptions at 30 years (Figure 2). In comparison, tax holidays in ASEAN countries vary between four and 20 years (including extensions), though no countries offer permanent exemptions (OECD, 2019[1]).

All MED governments (except the Palestinian Authority) grant tax holidays based on the location of the investment, including in under-developed areas, and, more frequently, in economic or free zones. The majority (except Egypt and Libya) offer tax holidays based on sector, and half of the countries grant holidays based on certain economic activities. Algeria, Lebanon and Morocco provide tax holidays based on all three criteria. Libya gives five-year tax holidays to all registered investors.

Figure 2. Length of CIT holidays in MED (years)

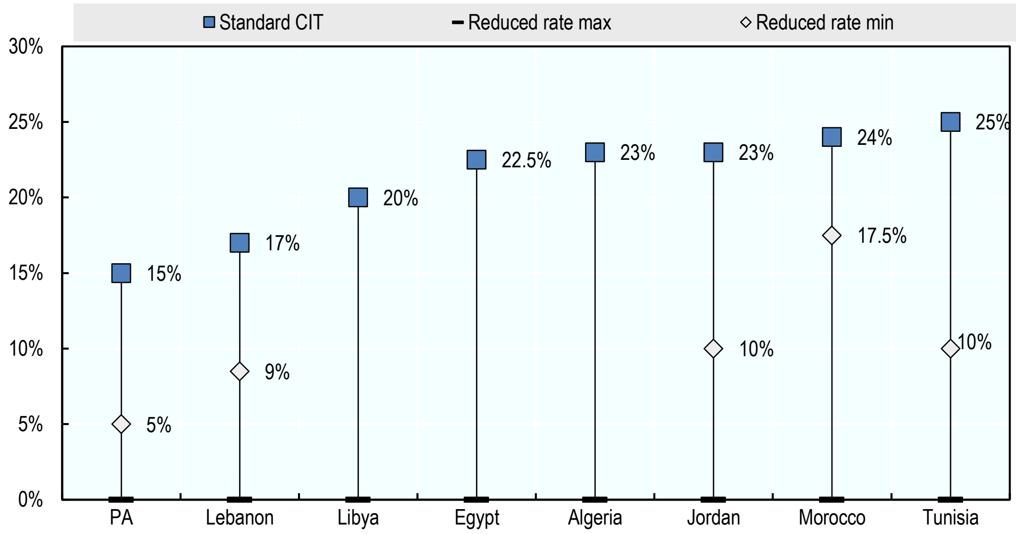


Note: Minimum and maximum lengths of CIT holidays offered to investors shown. Arrows indicate the country also grants permanent CIT exemptions to some investors. Only Tunisia and Jordan do not offer permanent CIT exemptions. Egypt offers permanent CIT exemptions to some investors,
Source: OECD based on national legislation.

CIT rate reductions in MED economies are often permanent

Reduced corporate income tax rates are preferential, non-zero tax rates below standard CIT rates. Often firms are eligible for reduced CIT rates after a tax holiday has expired. Five out of eight MED economies offer preferential CIT rates. Those that do tend to offer fewer tax holidays, and conversely, MED countries that use tax holidays widely (such as Algeria, Lebanon and Libya) have fewer or no CIT reduction schemes. Generosity of reductions varies. Figure 3 shows the maximum and minimum reduced CIT rates offered to investors (i.e. the most and least generous CIT reduction the country grants) compared to the average standard rate in each country. The Palestinian Authority offers qualifying firms CIT rates of 5% (compared to 15% standard rate), while Morocco grants rates between 8.75 to 17.5% (compared to an average standard rate of 24%). Libya, Egypt and Algeria offer complete tax reductions (i.e. tax holidays). These benefits are often permanent, or lengthy. Lebanon offers the shortest reductions at 5 years, compared to 20 years for certain investors in Morocco and Jordan. All of Tunisia’s CIT reductions are permanent. Eligibility criteria are more varied than for tax holidays, with no discernible concentration in certain activities or sectors across the region.

Figure 3. Standard and reduced CIT rates in MED



Note: Standard CIT figures for Algeria and Jordan show the average of standard rates for different sectors, Morocco shows the average of progressive rates. Minimum reduced rate depicts the least generous CIT reduction offered to investors. If none, the country does not offer CIT reductions less than 100%. All countries provide tax holidays, shown as maximum reduced rates.
Source: OECD based on national legislation and (EY, 2018[4]).

Tax deductions and credits used less frequently than profit-based schemes

Tax deductions or allowances allow firms to subtract certain expenses from taxable income. Tax credits are similar but enable investors to deduct an expense directly from their tax liability (versus their taxable income), reducing the amount of taxes due. Unlike the profit-based incentives described above, tax deductions and credits are cost-based. They reduce the cost of the investment for firms, such as upfront expenses, profits reinvested or more targeted costs like training programmes and research and development (R&D) activities (IMF-OECD-UN-World Bank, 2015[3]) (James, 2013[6]).

Half of MED countries provide tax deductions to investors. Egypt for example allows deductions of up to 50% of investment costs from taxable income for projects in areas most in need of development. Tunisia offers the most tax deduction schemes, including for reinvested profits in agriculture, “innovative sectors” and exporting firms. Algeria gives unspecified tax deductions for investments in R&D. Tax credits are used much less frequently across MED countries. While most countries in the region allow for accelerated depreciation of assets (ultimately lowering effective tax rates) and loss-carry-forward schemes (allowing firms to deduct losses made in a previous year from income made in a given fiscal period), these are often not used in a targeted manner, i.e. as a benefit to investments in a particular sector or activity. There is also an absence of accessible information on these schemes, necessitating further research.

Overall, cost-based incentives are much less common in MED countries than profit-based benefits, as is the case in most developing and emerging economies. This may be due in part to higher administrative costs involved in granting such incentives (Andersen, Kett and Von Uexkull, 2017[7]). But cost-based incentives are less biased toward firms that are already profitable. They depend instead on the size of the investment or its use toward certain activities, so are more likely to encourage new business and specific policy objectives (OECD, 2019[1]).

Exemptions from indirect and administrative taxes widespread

MED countries offer a broad range of exemptions on other taxes that do not directly affect CIT, but form part of the cost of investment. These include indirect tax exemptions, including on trade taxes, VAT and sales tax, and administrative taxes, such as land registration, stamp duties, and work/residence fees.

All countries in the region offer trade tax incentives, i.e., exemptions or reductions on import and export duties and other customs charges. These are sometimes specific to certain inputs, such as raw materials not available domestically. But in many cases MED countries give blanket exemptions. For example, in Morocco large investment projects receive complete import duty exemptions for three years. These schemes are almost universal in free zones and economic zones, designed to encourage exports and prevalent across the region. Two countries (Egypt and Libya) offer trade tax reductions or exemptions to all registered investors. All countries but Libya offer exemptions or reductions on VAT or sales tax. Similarly, these benefits are ubiquitous in economic zones, and are often granted alongside trade tax exemptions.

The majority of MED economies also provide certain investors with reductions or exemptions on administrative taxes, most notably land and building registration fees, stamp duties and professional activity taxes. These benefits, like indirect tax benefits, are often permanent. Algeria is one exception, offering most indirect and administrative tax benefits to firms only during their set-up phase. It is also notable that legislation often does not specify the length of time firms can receive these incentives, allowing for the interpretation that they are permanent benefits.

Financial incentives offered in the majority of MED economies

Though offered less frequently than tax incentives, financial benefits, such as grants for investment costs, are used throughout the region in an effort to attract investment in particular sectors, activities and locations.

Libya is the only MED country that does not detail specific financial benefits in its legislation. All other countries in the region offer grants for, for example, infrastructure costs, staff training, land/building or equipment costs, and/or utility expenses. With the exception of Tunisia, the specific details of these incentives – such as the amount of funds eligible firms can receive – are not specified in legislation. Most countries are also vague about eligibility requirements. For example, executive regulations often do not detail how investors can spend grants, such as for staff training, leaving them open to interpretation.

Several MED economies offer financial support for investment costs in activities related to sustainable development, environmental protection or renewable energy (Tunisia, Morocco, Egypt and Algeria). Loan guarantees and interest subsidies are other financial incentive tools, used for example in Algeria to promote tourism projects, and in Lebanon for firms that relocate to underdeveloped areas.

Additional incentives unspecified

Most countries in the region also provide unspecified additional tax and financial benefits to firms. Investment laws in Algeria, Egypt and the Palestinian Authority state that investments serving the public interest can receive other tax and financial support on a case-by-case basis, if approved by the relevant governing authority (such as a supreme council of investment or board of directors of the investment promotion agency). Often, both the conditions for receiving the incentives ("national interest") and the benefits available are imprecise. Specificity in laws and regulations, rather than wording that allows open interpretation by officials, helps reduce opportunities for corruption. Moreover, rules that are applied in an ad hoc manner across taxpayers creates unfair competition. Uncertainty over eligibility, the cost of bribes, and scope for an uneven playing field all pose a deterrent to investors (OECD, Forthcoming[8]).

Targeting of investment incentives

All MED economies use incentive schemes to promote investment in certain sectors, activities and locations, and in so doing, to encourage economic and social spill-overs through investment. Only two countries – Egypt and Libya – offer incentives to all registered firms, and these primarily consist of indirect and administrative tax exemptions. Notably, Algeria adopts a negative list approach to incentives; more than 100 sectors and activities are not eligible for tax benefits. Across the region, the vast majority of incentives apply only to investors that meet certain criteria. Eligibility requirements nonetheless tend to be unspecific and broad, covering multiple sectors or categories such as industrial projects. Research suggests that incentives that specifically target certain investments or activities are more likely to attract investment that would not otherwise have been made, can help achieve specific policy goals, and make it more difficult for firms to conduct aggressive tax planning (IMF-OECD-UN-World Bank, 2015[3]). It is worth noting, however, that targeting can also lead to market distortions, meriting regular evaluation and review of these schemes.

This section briefly summarises the extent to which incentives in the MED region are targeted to support economic and development goals. The majority of incentives offered seek to direct investment into certain locations, followed by key sectors, and types of activities (including export-oriented and job-creating projects). More than a quarter of incentives are eligible to firms that meet a combination of these criteria (for example, sector and location). Investment size is also often a requirement, though rarely the only one. As for the types of incentives used, these largely depend on the country. Some countries, like Algeria, tend to use tax holidays broadly, whereas Morocco and Tunisia provide more grants to investors than other countries in the region. Incentives for investment in sectors, activities and locations are examined in turn.

Incentives target agriculture, tourism and industrial sectors

More than a third of incentives mapped in the region seek to direct investment into particular sectors. Among sector-specific incentives, a third are further targeted toward sectors in certain locations (excluding zones) and/or performing particular activities. Table 1 summarises the six sectors that receive the most tax and financial incentives in region: agriculture, hydrocarbons, information and communications technology (ICT), industry, renewable energy, and tourism.[5]

[5] This summary is not a complete picture of the extent of incentives received by specific sectors, as it does not take into account benefits granted to firms in economic or free zones. These incentives are summarised under location-based incentives and, in the case of free zones, also under activities.

Some countries detail a specific list of priority sectors within executive regulations to investment laws or in tax codes, whereas others list broader categories. A notable example is the industrial sector; around 40% of all sector-specific incentives in the region target industrial projects. Legislation in Tunisia for example lists automotive manufacturing and pharmaceutical industries as among its targeted sectors, whereas Lebanon's Investment Law and amendments refer more broadly to investments in industry.

Table 1. Incentives for investment in select sectors in MED economies

	Agriculture	Hydrocarbons	ICT	Industrial	Renewables	Tourism
Algeria	Tax holiday, trade tax exemption			Tax holiday		Tax holiday, trade tax exemption
Egypt	Tax deduction, trade tax exemption, grants	Tax deduction, trade tax exemption		Tax deduction, trade tax exemption, grants	Tax deduction, trade tax exemption, grants	Tax deduction, trade tax exemption, grants
Jordan	Tax holiday, CIT reduction, trade tax exemption	Tax holiday, CIT reduction	CIT reduction, trade tax exemption	Trade tax exemption	Trade tax exemption	Tax holiday, CIT reduction, trade tax exemption
Lebanon	Tax holiday, CIT reduction, land/property tax exemption		Tax holiday, CIT reduction, land/property tax exemption	Tax holiday, CIT reduction, land/property tax exemption		Tax holiday, CIT reduction, land/property tax exemption
Libya						
Morocco	Tax holiday	Tax holiday		Tax holiday, grants		Tax holiday, CIT reduction
PA	Tax holiday			CIT reduction, trade tax exemption	CIT reduction, trade tax exemption	CIT reduction, trade tax exemption
Tunisia	Tax holiday, CIT reduction, trade tax exemption, tax deduction	Tax deduction, trade tax exemption	Grants	Grants	Grants	

Note: Does not include incentives granted to specific sectors in economic zones or free zones. *Tax holiday* = total income tax exemption over defined period; *CIT reduction* = corporate income tax reduction over defined period; *tax deduction* = deductions of certain expenses from taxable income; *trade tax exemption* = exemption from import duties, export taxes, VAT or sales tax; *land/property tax exemption* = exemption from land/property registration fees, stamp duties; *grants* = financial support towards specific investment costs. Table does not include other categories of benefits.
Source: OECD based on national legislation.

In addition to the industrial sector – and with the exception of Libya, which does not use investment incentives to target specific sectors – all countries offer incentives for investment in the agricultural sector. Agricultural projects tend to be eligible for the most generous incentives, including permanent corporate income tax exemptions in Algeria, Morocco and the Palestinian Authority. The tourism sector, however, is eligible for the greatest number of distinct incentives in the region. For example, Jordan, Lebanon and Morocco offer tax holidays followed by CIT reductions to tourism investments. Half the countries in the region offer incentives to renewable energy investments, and only Jordan, Lebanon and Tunisia provide specific incentives to the ICT sector. It is worth noting that other countries may promote these sectors indirectly through activity-based incentives. Firms that use new technologies or advance environmental protection are often eligible for separate incentives, described below.

Half of the countries in the region provide tax benefits to investments in hydrocarbons – though it is likely that the data presented vastly underrepresents the extent of tax support to the industry. As noted above, the mapping only considers incentives explicit in tax codes and investment-related laws and regulations. Many oil and gas firms receive additional exemptions in specific contracts with national governments. For example, in Egypt, specific decrees govern each petroleum agreement, which override domestic law for tax purposes (PwC, 2017[9]). Studies and investor surveys consistently suggest that natural resource-based incentives are redundant; as the resource is location specific, it raises the question of the necessity of incentives in attracting extractive firms (IMF-OECD-UN-World Bank, 2015[3]) (James, 2013[6]).

All MED economies incentivise export activities

All countries in the MED region use investment incentives to target investments in certain activities, such as job creation or environmental protection. Activity-specific incentives are only slightly less frequent than sector-specific incentives, and comprise around a third of all incentives offered in the region. Similar to sectoral benefits, a third of these incentives target activities in specific sectors and/or locations.

As summarised in Table 2, exports are the most encouraged activity across the region. Every country offers incentives to investors that primarily export or seek to increase their share of exports. Table 2 includes incentives granted to firms in free zones that have minimum export requirements. But all MED countries except Jordan also offer incentives to exporting firms irrespective of their location. In addition to trade tax exemptions, most countries offer tax holidays and/or CIT reductions to exporting firms.

Several studies suggest that exporters respond more to incentives than domestic market-seeking investors, due to high international competition to attract such firms and their demands to keep costs low (James, 2013[6]) (Andersen, Kett and Von Uexkull, 2017[7]). But this varies by country. For example, a 2009 survey of investors in Jordan found that exporters were only slightly more attracted by incentives than non-exporters: around a third of exporters reported that they would not have invested in the country without incentives, compared to 20% of non-exporters – the majority of investors would have entered the market regardless (James, 2013[6]). Moreover, tax benefits contingent on export performance are generally prohibited under World Trade Organisation rules against export subsidies, raising concerns about their use (WTO, 2019[10]).

Also common across countries are incentives to investors that advance environmental protection. For example, Tunisia offers firms in recycling and waste treatment CIT rates of 10%, and Libya and Algeria grant tax holidays to investments that preserve the environment and protect natural resources. Aside from these two trends, there is wide variation in activity targeting across countries. Half provide incentives to firms that create jobs, usually with a specific threshold requirement, or enhance skills (though as noted above, other countries provide grants for skills training). Fewer countries give incentives to firms that use new technologies or support technology transfer and R&D activities. This finding is surprising, and perhaps reflects a broader trend of wide targeting of investment in the MED region, and indeed in many emerging economies.

Table 2. Incentives for investment in certain activities in MED

	Environmental protection	Exports	Job creation / skills	Technology / R&D	Local sourcing
Algeria	Tax holiday, grants	Tax holiday	Tax holiday	Tax holiday, tax deduction, grants	
Egypt		Tax holiday, tax deduction, trade tax exemption, grant	Tax deduction, trade tax exemption, grant		
Jordan		CIT reduction, trade tax exemption, land/property tax exemption			Trade tax exemption
Lebanon		Tax deduction			
Libya	Tax holiday, trade tax exemption, land/property tax exemption	Tax holiday, trade tax exemption			
Morocco	Grants	Tax holiday, CIT reduction, trade tax exemption	Grants	Grants	
PA	CIT reduction, trade tax exemption	Unspecified			CIT reduction, trade tax exemption
Tunisia	CIT reduction, trade tax exemption, grants	CIT reduction, tax deduction, trade tax exemption, land/property tax exemption, grant	CIT reduction, tax deduction, trade tax exemption, grants	Tax deduction, grants	

Note: Benefits to exporting firms include incentives given to firms in free zones with minimum export requirements. *Tax holiday* = total income tax exemption over defined period; *CIT reduction* = corporate income tax reduction over defined period; *tax deduction* = deductions of certain expenses from taxable income; *trade tax exemption* = exemption from import duties, export taxes, VAT or sales tax; *land/property tax exemption* = exemption from land/property registration fees, stamp duties; *grants* = financial support towards specific investment costs. Table does not include other categories of benefits.
Source: OECD based on national legislation.

Location-based incentives most widely used in the region

The majority of incentives offered to investors in the MED region seek to direct investment into particular locations. Half of these incentives are reserved for investors in economic, development or free (trade) zones, geographically defined areas that often have special regulations, administration, fiscal incentives, and/or infrastructure. Zones often have other eligibility requirements, including specific sectors and activities (notably exports). The scale is indicative of a zone-based development strategy in many countries, and a shared priority for regional development. Table 3 lists the types of incentives offered to investors in underdeveloped areas, economic zones (including zones labelled development zones, industrial parks and Special Economic Zones), and free zones. The latter tend to have special export requirements or offshore status, thus are separated from economic zones for analytical purposes, though some countries have zones that cross the boundary between the two categories.

Table 3. Incentives for investment in specific locations in MED economies

	Areas for development	Economic Zones	Free Zones
Algeria	Tax holiday, trade tax exemption, land/property tax exemption, grants		
Egypt	Tax deduction, trade tax reduction, grants	Tax deduction, trade tax reduction/exemption, grants	Tax holiday, trade tax exemption
Jordan	Tax holiday, CIT reduction, trade tax exemption	CIT reduction, trade tax exemption, land/property tax exemption	CIT reduction, trade tax exemption, land/property tax exemption
Lebanon	Tax holiday, CIT reduction, trade tax exemption	Tax holiday, trade tax exemption, land/property tax exemption	Trade tax exemption
Libya	Tax holiday, trade tax exemption, land/property tax exemption	Tax holiday, trade tax exemption	
Morocco	Grants	Tax holiday, CIT reduction	Tax holiday, CIT reduction, trade tax exemption
PA	CIT reduction, trade tax exemption	CIT reduction, trade tax exemption, grants	
Tunisia	Tax holiday, CIT reduction, tax deduction, grants		CIT reduction, tax deduction, trade tax exemption

Note: Economic zones include Development Zones, Special Economic Zones (SEZs) and industrial parks/zones. Free Zones refer to zones with specific export requirements. *Tax holiday* = total income tax exemption over defined period; *CIT reduction* = corporate income tax reduction over defined period; *tax deduction* = deductions of certain expenses from taxable income; *trade tax exemption* = exemption from import duties, export taxes, VAT or sales tax; *land/property tax exemption* = exemption from land/property registration fees, stamp duties; *grants* = financial support towards specific investment costs. Table does not include other categories of benefits.
Source: OECD based on national legislation.

All economies in the region offer incentives to investors that operate in less-developed regions of the country. These areas are often specified in national decrees, though sometimes are listed in investment promotion laws. Most countries map areas of territory from less to least developed, offering progressively more generous incentives to firms in more underdeveloped areas. Jordan and Lebanon divide the whole country by level of development, providing incentives in nearly every location. Governments tend to require that the investor meet other criteria in more developed areas, such as listing shares on the national stock exchange (Lebanon). Benefits to firms in least developed regions tend to be the (or among the) most generous offered by the country. Algeria and Tunisia offer 10 year tax holidays to firms in designated areas, Jordan a 20 year holiday with possible extension of 10 years. Half the countries in the region also offer financial support, including grants for infrastructure and utilities (Algeria, Egypt, Morocco and Tunisia), and training and land costs (Egypt and Morocco).

Economic zones or free zones tend to provide the greatest number of different tax incentives available to firms. As discussed under activity-based incentives, free zones often have export requirements, and are indicative of a region-wide emphasis on promoting export-driven growth. Economic zones usually target certain activities, including manufacturing, or more specific industries such as textiles or finance. Every zone (free and economic) offers CIT reductions or exemptions. These range from permanent CIT exemptions (Egypt's Free Zones, Lebanon's Tripoli Economic Zone, Libya's Musurata and Taminhenet Free Zone) to permanent CIT reductions (at 5% in Jordan's Aqaba Special Economic Zone) or temporary CIT reductions (at 5% for 5 years and 10% for 3 years in the Palestinian Authority's Industrial Parks). Nearly every free and economic zone offers trade tax and VAT exemptions, and most provide exemptions on land/property tax.

Discretion in awarding incentives

The mapping also tracked the level of discretion involved in granting incentives to investors. That is, whether the details of the incentive, such as the generosity of the tax incentives or length of exemption, are made explicit in legislation, and whether eligibility criteria to receive the incentive are specific and automatic, or require interpretation or approval from an administering authority.

There is broad consensus among international organisations that consolidating all tax incentives in tax laws – rather than in investment laws, legislation governing specific industries or one-off agreements with firms – enhances transparency and reduces potential redundancies and confusion over the administering authority (IMF-OECD-UN-World Bank, 2015[3]). The Ministry of Finance is also best placed to monitor the cost of incentives. Indeed, other ministries may be more inclined to offer fiscal benefits as they are not in charge of tax collection or necessarily aware of the state's fiscal needs (James, 2013[6]). In tax laws, any incentives offered should be specific, with clear eligibility criteria and little room for discretion by authorities. This reduces the risk of corruption as well as unfair competition between firms (IMF-OECD-UN-World Bank, 2015[3]).

The majority of MED economies grant investment incentives through investment laws and decrees. Only Morocco has consolidated most of its tax incentives in its tax code. Half of the countries list some benefits in the tax code or budget/finance laws (Algeria, Jordan and Lebanon) or publish amendments to the incentives regime in finance laws (Tunisia) – a step towards consolidation. In every country, the spectrum of incentives offered are dispersed in multiple pieces of legislation (including sectorial and SEZ laws), decrees and executive orders. This makes compiling a complete picture of incentives offered difficult, and may create confusion among investors regarding their entitlements. Conversely, it may also allow investors to shop around for incentives, while authorities may lack a clear view of the full spectrum of incentives they provide. The investment promotion agency details incentives offered on their websites in most cases – but not all.

A quarter of all incentives offered in the region are not explicitly detailed in national legislation. That is, the law does not specify the length or amount of a tax exemption/reduction, amount of grant/financial support, or other details about the benefit. As discussed previously, the majority of countries offer undefined "additional benefits" to eligible investors. Many incentives have vague eligibility criteria, such as broadly-defined sectors or activities "in the national interest".

Discretionary awarding of incentives is widespread in the region. Every country offers some incentives that require that the investor seek prior approval from a government body, often the investment promotion agency or a council for investment. This may apply to certain large-scale investments only, or in the Palestinian case, all firms are required to apply for most incentives. Some countries also mandate that all investors register with the investment promotion agency before entering the market. Further research is required to compare the level of discretion administering authorities have in granting incentives in the region and elsewhere, as well as the use of ad hoc, contract-based incentives.

Conclusion and policy considerations

This mapping of incentives in the MED region provides a broad picture of the types of incentives used in the region, and the extent to which they target certain sectors, activities, and locations. Though some countries have reduced the length and breadth of use of tax holidays, complete income tax exemptions remain widespread. The mapping reveals that across the region countries are spending resources (directly or via revenue forgone) to develop the agricultural, tourism and industrial sectors (broadly defined), export-oriented activities, and to bring investment to under-developed regions.

The prolific use of tax and financial incentives in the MED region raises several questions policy makers should consider. Economic studies have found that while FDI is sensitive to a country's tax system, tax incentives are not necessarily the determining factor in investors' decisions to enter a certain market. Some investors (such as those that are efficiency-seeking) may be more sensitive to incentives than others (such as market- or natural resource- seeking), but surveys suggest that the vast majority of firms would invest even without incentives. Moreover, tax incentives are largely ineffective if the wider investment climate is unfavourable to business (IMF-OECD-UN-World Bank, 2015[3]) (James, 2013[6]). Given this, policy makers would do well to consider how widely they offer tax and financial benefits, if these incentives are necessary to attract investment, and if the costs of the incentive – in terms of revenue foregone and economic distortions – outweigh their benefits.

A joint report prepared by the IMF, OECD, UN and World Bank lays out several guidelines countries can follow in designing, governing and reforming their use of incentives (IMF-OECD-UN-World Bank, 2015[3]). These include considering the type of incentive (profit vs. cost-based and length), eligibility criteria (to what extent does it target specific goals), level of discretion involved in granting benefits to investors, and mechanisms to monitor the financial cost of the incentive to the state. But more work is needed to analyse the effectiveness of incentives in the region, and across developing and emerging economies.

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