OECD
BETTER POLICIES FOR BETTER LIVES

REPORT

Regional seminar on “Investment promotion: focus on incentives and territorial development”

Paris, October 2017

This report contains the summary discussions, agendas, list of participants and presentations of the regional seminar on “Making investment promotion policies work for sustainable development in the Mediterranean: Focus on incentives and territorial development”, organised in Paris on 16-17 October 2017, as well as the background paper on “Investment promotion for sustainable development: Focus on incentives and territorial development”.

Report

Context and participants

The **two-day workshop on "*Making investment promotion policies work for sustainable development in the Mediterranean*"** was the second regional activity under the EU-OECD Programme on Promoting Investment in the Mediterranean, which aims at supporting the implementation of sound investment policies and effective institutions in the Southern Mediterranean region.

The workshop took place back-to-back with the OECD Investment Committee in Paris and included joint sessions with the second **workshop of the OECD Network of Investment Promotion Agencies** (IPAs) (See agenda of the workshop in Annex 1).

In terms of **participants**, the workshop brought together representatives from investment promotion agencies and related institutions from seven beneficiary countries (Egypt, Israel, Jordan, Libya, Lebanon, Morocco, and Tunisia), selected European investment promotion agencies, representatives of the EU and OECD experts. Visa issues did not allow some MED countries to participate, notably Algeria.

An **issue note** was prepared and sent to participants prior to the workshop. The note provided a basis for discussion and a list of questions for the three topics discussed during the workshop:

- The OECD **IPA survey**, as a basis for the MED IPA survey.
- A preliminary stocktaking of **investment incentives** in MED economies, in particular the recent trends in Corporate Income Tax (CIT) and an initial mapping of the use of investment incentives and the varying practices among MED and ASEAN economies for peer-learning purposes.
- Investment policymaking at the sub-national level and the role of IPAs in promoting investment that supports **territorial development**, highlighting FDI disparity at the sub-national level in MED economies and presenting some international experiences in investment promotion decentralisation.

Discussions

On the first day, after a welcoming session, MED IPAs participated to the plenary sessions of the "second workshop of the OECD IPA Network" which gathered about 130 participants from over 50 OECD member countries and emerging economies, including senior representatives from 37 IPAs as well as policymakers and representatives from international organisations.[1] The objective of the first session was to share the preliminary results of a joint **IPA survey** developed by the OECD and the Inter-American Development Bank (IDB). This comprehensive survey provides insights on the overall organisation of the surveyed IPAs, including their legal status, reporting structure,

[1] Participating IPAs in the plenary sessions included those from: Australia, Belgium, Brazil, Cambodia, Chile, Colombia, Costa Rica, Denmark, Egypt, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Israel, Japan, Jordan, Latvia, Lebanon, Libya, Lithuania, Morocco, Norway, Peru, Poland, Romania, Slovenia, Spain, Sweden, Switzerland, Tunisia, Turkey, United Kingdom and United States. Other countries were represented by their Investment Committee delegates. International organisations included the Inter-American Development Bank, the World Association of Investment Promotion Agencies, the World Bank Group and the World Trade Organization.

mandates, internal organisation, types of activities performed, prioritisation techniques and evaluation methods used. A second session focused on **policy advocacy** and the role of IPAs in investment climate reforms.

The **EU-MED IPAs networking lunch** was then organised to allow representatives from MED and EU IPAs to network, promote their respective recent reforms, and share experiences. The lunch gathered representatives from the participating MED IPAs and representatives from 14 EU IPAs, as well as the CEO of the World Association of Investment Promotion Agencies (see list of participants to the Networking lunch as Annex 2 to this report). The lunch allowed to explore the possibility to expand peer-learning with EU IPAs, several having expressed interest in joining future activities of the Programme.

In the afternoon, a dedicated session for MED IPAs addressed ways IPAs can make the most **effective use of incentives** as a promotion tool. The session included interventions from a senior expert of the OECD Centre for Tax Policy and the CEO of the World Association for Investment Promotion Agencies (WAIPA). Both experts shared country examples and good practices in designing tax incentives to attract investment. MED IPAs presented their respective incentives framework, including their policies on economic zones, and discussed with the experts their recent or forthcoming reforms. All recognised that a better monitoring of the incentive regimes in the MED region would allow for a better assessment of the types of incentives that can enable positive economic and social spill-overs.

The second day, the workshop was held at the premises of Business France (BF), the French Investment and Export Agency. Discussions focused on IPAs role in promoting investment that supports territorial development. In the morning, after the opening of the Director of Business France, MED IPAs, BF staff and OECD experts (including a senior expert from the OECD Regional Development Division), discussed the recent institutional reforms in the region aiming at **decentralising investment promotion and facilitation** (notably in Morocco and Tunisia). Main constraints discussed were the coherence between territorial and investment promotion policies, responsibilities and competencies of stakeholders, institutional coordination mechanisms, as well as availability and comparability of data and indicators to orient policies.

The afternoon was dedicated to a **case study on Business France's role in coordinating with territorial authorities**. A team of practitioners from Business France shared with MED participants their experience in promoting and facilitating foreign investment at the sub-national level and presented their tools and mechanisms to promote effective coordination with the territorial authorities. This practical session was particularly appreciated by participants.

Next steps

In the tour de table at the end of the workshop, participants expressed their appreciation on the two-day workshop, in particular the last practical session, and called from more case studies in future workshops. Currently designing and implementing investment policy reforms, participants emphasised the need for more concrete discussions on territorial development and investment (Tunisia and Lebanon), for support instruments to assess cost and benefits of incentives and for IPA performance indicators (Morocco), as well as for more information on on-going investment

climate reforms (Egypt). Participants clearly expressed their willingness to exchange more and with transparency between the countries of the region on their investment climate reforms.

- **Launch the MED IPA survey**: adapt and share with MED IPAs the IPA questionnaire and follow-up with to ensure completion of the survey. Results will be presented during a regional workshop in 2018 and a subsequent background note will be prepared to reflect a more thorough comparison of MED IPAs structures and approaches to investment promotion and facilitation based on the result of the survey.

- **Further build capacities on thematic issues** selected according to the expressed needs of beneficiary countries (to be reflected in the action plan for year 2 of the Programme starting in April 2018), in particular investment and territorial development with expansion on strengthening foreign investment linkages with local SMEs, indicators for quality investment, and the optimal use of Investment incentives. Further background documents could be prepared with the objective to provide a more comprehensive stocktaking of investment incentives and of investment policymaking supporting territorial development in the MED region.

Reform Path for Tax Incentives Reform

ANNEX 1: AGENDA

EU-OECD Programme on Promoting Investment in the Mediterranean

REGIONAL WORKSHOP

Making investment promotion policies work for sustainable development in the Mediterranean

16 - 17 October 2017

OECD Conference Centre

2 Rue André Pascal, 75016 Paris

Background

The EU-OECD Programme on Promoting Investment in the Mediterranean, launched in October 2016 in Tunis, is aimed at implementing sound and attractive investment policies and establishing effective institutions in the Southern Mediterranean region, with a view to attract quality investments, supporting job creation opportunities, local development, economic diversification and stability.

The Programme, implemented by the OECD (the MENA-OECD Competitiveness Programme and the Investment Division of the Directorate of Financial and Enterprise Affairs), is governed by an Advisory Group, co-chaired by the European Commission and the OECD, with the participation of representatives of beneficiary countries, the Secretariat of the Union for the Mediterranean and other regional partners.

Context of the Workshop

Most governments in the Southern Mediterranean (MED) region are pursuing active investment promotion and facilitation policies in the hope to attract investment creating jobs and fostering sustainable growth. However, differences exist between investment promotion agencies (IPAs) which, together with policymakers, need to make optimal choices reflecting their respective economic context.

Besides diverse institutional configurations, IPAs in the MED region differ in their mandate and strategic priorities (e.g. whether the IPA is mandated to promote greenfield FDI and/or M&As and/or domestic investment; how priority sectors and regions are chosen), their key functions and tools (e.g. whether IPAs grant fiscal and other incentives, only focus on promotion and facilitation activities, or also deal with export promotion), and the budget and human resources they have at their disposal. While one size does not fit all, IPAs pursue similar goals and are seeking common good practices on IPAs' approaches to investment promotion and facilitation.

Objectives of the Workshop

This workshop will be held back-to-back with the OECD Investment Committee and will include joint sessions with the OECD IPA Workshop, in Paris. It will bring together representatives from MED and EU countries IPAs to exchange experiences and good practices in setting effective investment promotion strategies and policies to attract quality investment and discuss how to improve IPAs' impact and relevance.

The active participation of beneficiary governments in the workshop will also be an opportunity for networking among IPAs and for increasing the attractiveness and visibility of the region as an investment destination.

Day 1: The preliminary results of a joint IPA survey developed by the OECD and the Inter-American Development Bank (IDB) will be shared during a plenary session gathering MED and OECD economies, prior to upcoming dissemination of a similar survey for MED IPAs. Investment promotion trends and practices in OECD and elsewhere, in particular Latin American countries, will then be discussed. Participants will then be invited to a networking lunch, with selected EU IPAs. In the afternoon, a dedicated session will address ways IPAs can make the most effective use of incentives as a promotion tool.

Day 2: The workshop will be held at the premises of Business France, the French IPA, where the discussions will focus notably on IPAs role in promoting investment that supports territorial development. In the afternoon, Business France will share with participants its experience in promoting effective coordination with territorial authorities.

Monday 16 October 2017

OECD Conference Centre

08:30-09:10
Auditorium

Welcoming session (MED participants)

The session will present the context and goals of the workshop and provide an overview of its thematic sessions. Ahead of session 1, the OECD will also present the purpose and methodology of the OECD-IDB IPA survey, on which the upcoming MED IPA survey will draw.

- **Marie-Estelle REY,** Senior Advisor, MENA-OECD Competitiveness Programme, Middle East and Africa Division, OECD
- **Ana Maria SEGURA,** Trade and Investment, Regional Programmes Neighbourhood South, DG Neighbourhood and Enlargement (NEAR), European Commission

Presentation of the workshop

- **Hélène FRANCOIS**, Legal Advisor, Investment Division, OECD
- **Peline ATAMER,** Policy Analyst, Investment Division, OECD

Room CC15

Participants will be invited to join the OECD IPA workshop, which brings together representatives from OECD and Latin American IPAs

09:15-11:00

SESSION 1 (joint): OECD mapping of investment promotion agencies (IPAs) - objectives and preliminary results

IPAs have been established to attract investment and better capture its benefits, but one size does not fit all and different activities, approaches and strategies are suitable for different countries and different target enterprises. Even in similar geographic and development contexts, large differences exist among IPAs in terms of strategic priorities, functions, tools and institutional choices. Against this background, the OECD is conducting through a comparative survey, a mapping of existing practices among IPAs across the OECD and highlighting current and emerging trends in investment promotion and facilitation.

After a presentation by the OECD on the project and its preliminary results, this session will allow for a discussion and an exchange of practices based on these findings.

Introduction

- ***Ana NOVIK,*** Head of Investment Division, OECD

Background presentation

- **Monika SZTAJEROWSKA**, Economist, OECD, and **Christian VOLPE**, Principal Economist, Inter-American Development Bank

Reactions from the floor and interactive discussion

11:00-11:15	***Coffee break***

11:15-12:45	**SESSION 2 (joint): Policy Advocacy - the role of IPAs in investment climate reforms**

Policy advocacy can be a powerful instrument to bolster reforms and enhance the business environment by leveraging the private sector's feedback. It is a key function of many IPAs, which, through their interactions with investors, are well placed to identify bottlenecks in the investment climate and provide recommendations to address them. Appropriate institutional co-ordinating mechanisms and communication channels are necessary to ensure optimal government responses.
After a background presentation by the OECD, participants will discuss the role of IPAs in policymaking and on how to maximise policy advocacy benefits.

Presentations

- **Alexandre DE CROMBRUGGHE**, Economist, Investment Division, OECD
- **Philippe YVERGNIAUX,** Director for International Cooperation, Business France
- **Michael TRACTON**, Director, Office of Investment Affairs, US Department of State
- **Márcia NEJAIM,** Business Director, Apex-Brasil

Interactive discussion

Conclusion : **Ana NOVIK**, Head of Investment Division, OECD

12:45-14:00 *George Marshall Room*	***EU-MED Networking Lunch*** *Participants will be invited to a buffet lunch to exchange with their peers from the region and representatives of EU IPAs*

14:00-16:00 *Room CC9*	**SESSION 3 (MED participants): Making effective use of incentives as an investment promotion tool**

Often, IPAs have the mandate to offer fiscal and non-fiscal incentives to investors, While investment incentives are widely and increasingly used worldwide, there is only limited evidence on how incentives differ across countries and mixed evidence on the response of foreign and domestic investors to incentives. Monitoring the composition and generosity of incentive regimes in the Mediterranean region would allow for a better assessment of what types of incentives potentially enable positive economic and social spill-overs. In this context, the impact of economic zones also needs to be addressed.

Moderator : **Martin WERMELINGER,** Economist, Investment Division, OECD

- **Ahmed Kamal El Gazzar,** Senior Policy analyst - Investment Policies sector,

General Authority for Investment and Free Zones (GAFI) and **Mohamed Hesham Hassan**, Senior economic analyst - Technical office of the executive chairman : *Focus on Egypt's policy related to economic zones and incentive*

- **Bostjan SKALAR,** CEO, World Association of Investment Promotion Agencies (WAIPA)
- **Kurt VAN DENDER,** Head of Unit, OECD Centre for Tax Policy

Roundtable discussion: *Participants will be invited to share their respective experience in using incentives and economic zones as investment promotion tools.*

Tuesday 17 October 2017

at Business France premises
77 Boulevard Saint-Jacques, 75014 Paris
Metro: Denfert-Rochereau

09:00 *Departure to Business France: Participants are invited to meet at the OECD. Transportation to Business France will be provided.*

10:00-10:15 ***Welcoming session***

- **Caroline LEBOUCHER,** Director, Business France Invest**,** Business France

10:15-12:30 **SESSION 4 (MED participants): Decentralisation and the role of IPAs in promoting local investment attractiveness**

While in most of the Southern Mediterranean economies, subnational investment promotion agencies are in place, the division of responsibilities between these agencies and the national government is not always clearly defined. Policymakers and IPA practitioners recognised the necessity for local economic actors (regional governments, IPAs, SEZ authorities, chambers of commerce, etc.) to enhance their promotion role in coordination with national agencies.

This session will discuss how IPAs can better align their investment promotion strategies with regional development objectives. Exchanges will particularly focus on co-ordination mechanisms between the national and sub-national levels of IPAs an how to build enhanced institutional frameworks.

Moderator**: Fares AL-HUSSAMI,** Policy Analyst, Investment Division, OECD

- **Amal CHEVREAU,** Senior Consultant, Regional Development Policy Division, OECD
- **Nejma EL-HOUDA BOUAMAMA,** Head of Project Management Department, Moroccan Investment Development Agency, Morocco
- **Mohamed GHARSALLAH,** Director General, Industrial Land Agency, and
- **Ghali MANOUBI**, Director, Tunisia Investment Authority, Tunisia

- **Philippe YVERGNIAUX,** Director of International Cooperation, Business France

Roundtable discussion: *Participants will be invited to share their respective experience in promoting investment in support of territorial development.*

12:30-14:00	***Lunch break hosted by Business France***
14:00-16:00	***Case study: Business France's role in coordinating with territorial authorities***

Regions should be at the centre of investment attraction strategies. To facilitate investment flows in regional territories and to ensure coherence between regional offers and value-added, Business France, the national export and investment promotion agency, is ensuring a coordination role between enterprises, regional governments and development agencies, central administrations, and service providers. In particular, Business France has specific agreements with regional economic development agencies, defining common strategies and partnership modalities, including prospection methods, exchange of information on projects, investors services, search for specific investors and communication.

During this session, Business France will discuss strategies, principles and tools to ensure the conditions of a sound partnership between the national and regional levels.

***Moderator:* Véronique LEDRU,** Trade & Investment Expert, International Cooperation, Business France

- **Lorenzo CORNUAULT,** Executive Director, Network in France
- **Stéphane RAMMAN,** Director Investment Opportunities and Business Offers

16:00-16:30	***Concluding remarks and next steps***

- **Philippe YVERGNIAUX,** Director International Cooperation, Business France
- **Marie-Estelle REY,** Senior Advisor, MENA-OECD Competitiveness Programme, Middle East and Africa Division, OECD

Group picture

16:30	*Transportation back to the OECD*

ANNEX 2:

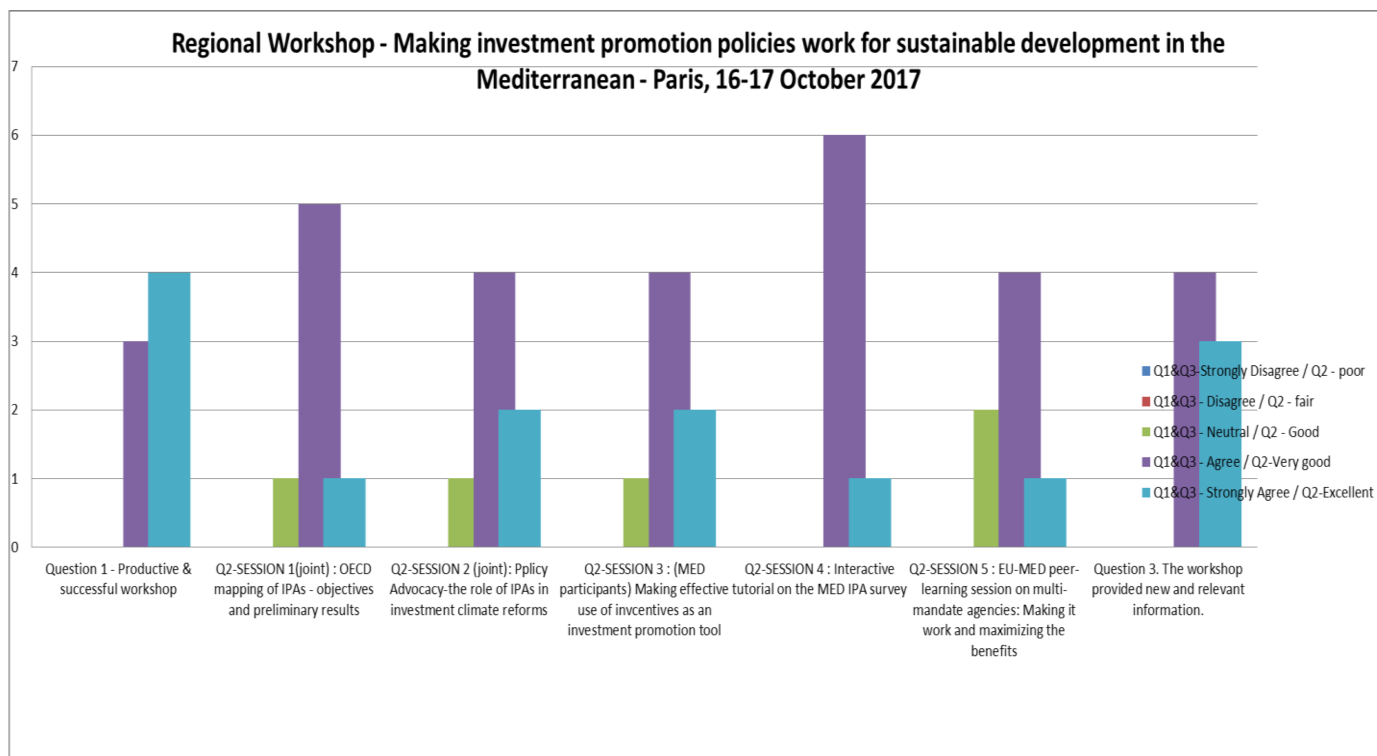
NETWORKING LUNCH
16 October 2017, OECD

LIST OF PARTICIPANTS

Country	Name	Agency	Title /Service
Algeria	Safia KOUIRET	ANDI National Agency of Investment Development	Investment Promotion Division
	Ahmed BERRICHI		Director of Investment & large projects Division
	Asma REGAGBA		Communication Director
Belgium - Flanders	Jan OFFNER	Flanders Investment & Trade	Economic and trade advisor
Denmark	Niels ASKAER-HUNE	Invest in Denmark	Head of Analysis
Egypt	Ahmed K. EL GAZZAR	GAFI General Authority for Investment and Free Zones	Senior Policies Analyst
	Mohamed HESHAM HASSAN		Senior Economic Analyst, Technical Office of the Executive Chairman
Estonia	Allan SELIRAND	Estonian Investment Agency	Head
	Peter GORNISCHEFF	Permanent Representation of Estonia to the OECD	Counsellor for Economic Affairs and Energy
EC	Ana-Maria.PENA-SEGURA	Neighbourhood South, European Commission	Trade and Investment, Regional Programmes
Finland	Kaija LAITINEN	Finpro Invest in Finland	Advisor
France	Philippe YVERGNIAUX	Business France	Director, International Cooperation
	Véronique LEDRU		Trade & Investment Expert, International Cooperation
Germany	Achim HARTIG	Germany Trade & Invest	Managing Director Investor Consulting
Greece	Constantinos ANGELOPOULOS	Enterprise Greece	Director of Investment Promotion
Hungary	Péter SZÉPLAKI	HIPA Hungarian Investment Promotion Agency	Consultant, Investment Promotion Directorate
Ireland	Breda O'SULLIVAN	IDA Ireland	Manager of Corporate Strategy & Planning
Israel	Eyal ELLIEZER	Invest in Israel	Head of Strategy
Jordan	Lina Issa SHAHATIT	JIC Jordan Investment Commission	Officer, Promotion Investment Department

Country	Name	Agency	Title /Service
	Basma ARABIYAT	Ministry of Planning and Internat Cooperation	Competitiveness Division
Latvia	Solvita GULBE	LIAA Investment and Development Agency of Latvia	Head of representative office, French embassy
Lebanon	Zeina EL SAYED	IDAL Investment Development Authority of Lebanon	Business Analyst
	Andrea KAZAN		Economic Officer
Libya	Abduelaziz ESHAWISH	Investment in Libya Privatization & Investment board	CEO
	Essam ZAHAF		Director, International Cooperation Department
Morocco	Nejma BOUAMAMA	AMDI Moroccan Investment Development Agency	Head of Project Management Department
	Jihane LMIMOUNI		Head of International Organisations Cooperation
Poland	Marcin BULINSKI	PAIH Polish Investment and Trade Agency	Chief Specialist
Slovenia	Helena SCHLAMBERGER	Spirit Slovenia	Investment Promotion Officer
Sweden	Ulrika CEDERSKOG SUNDLING	Business Sweden	Executive Vice-President and Head of Invest
	Francisca HERODES		Head of Investment Services and Cooperation
Tunisia	Ghali MANOUBI	Tunisia Investment Authority	Director
	Mohamed GHARSALLAH	AFI Industrial Land Agency	CEO
United Kingdom	Tord JOHNSEN	Department for International Trade	Deputy Director, Insights & Performance
	Anuj MATHEW		Senior Economist
WAIPA	Bostjan SKALAR	WAIPA World Association of Investment Promotion Agencies	CEO

ANNEX 3: Feed-back from participants



ANNEX 4: background paper

ISSUES NOTE

MAKING INVESTMENT PROMOTION WORK FOR SUSTAINABLE DEVELOPMENT IN THE SOUTHERN MEDITERRANEAN: FOCUS ON INCENTIVES AND TERRITORIAL DEVELOPMENT

October 2017

This issues note is a draft document. Please do not quote or cite. Comments are welcome.

This issues note has been prepared for the regional workshop "Making investment promotion work for sustainable development in the southern Mediterranean" taking place on 16-17 October in Paris. This workshop is part of the EU-OECD Programme on Promoting Investment in the Mediterranean launched in October 2016, which aims at supporting the implementation of sound investment policies and effective institutions in the Southern Mediterranean region (MED region).

Most governments in the MED region are pursuing active investment promotion and facilitation policies in the hope to attract investment creating jobs and fostering sustainable growth. However, differences exist between investment promotion agencies (IPAs) which, together with policymakers, need to make optimal choices reflecting their respective economic context. One of the objectives of the second pillar of the EU-OECD Programme on Promoting Investment in the Mediterranean is to support policy dialogue and capacity building among MED IPAs.

This note was elaborated to support such policy dialogue. It provides first an overview of the objective and scope of a joint IPA survey developed by the OECD and the Inter-American Development Bank (IDB). This survey will serve as a basis for a similar survey of MED IPAs. The information collected through this survey will allow benchmarking MED IPAs against OECD and other countries IPAs. It will also support peer-learning activities and policy dialogue workshops planned throughout the EU-OECD Programme. The note then offers a preliminary stocktaking of investment incentives in MED economies and compares them with those in the ASEAN region. It finally dedicates a section to discuss investment policymaking at the sub-national level and the role of IPAs in promoting investment that supports territorial development.

Contacts: Helene Francois (helene.francois@oecd.org), Legal Advisor, and Fares Al-Hussami (fares.alhussami@oecd.org), Policy Analyst, OECD Investment Division.

TABLE OF CONTENTS

I. Introduction 23

II. IPA's structure and approaches to promotion and facilitation: THe OECD IPA survey 24

III. Investment incentives in the MED region: Preliminary stocktaking 26

Trends of corporate income taxes in MED economies 27

Use of tax incentives in MED economies 28

Varying practice of incentives for targeted activities30

IV. Regional investment policymaking and the role of IPAs in promoting local attractiveness 33

The determinants of FDI location at the territorial level 33

FDI impact on territorial development 34

FDI and territorial development in MED economies 35

Regional investment policymaking: Focus on investment promotion and facilitation 39

Bibliography 48

Annex: Preliminary stocktaking of Investment incentives in med 50

Figures

Figure 1.CIT rate (in %) in MED and ASEAN economies in 2006 and 2016 ... 28
Figure 2.Income tax holidays in MED and ASEAN (maximum number of years)... 29
Figure 3.FDI regional disparity in MED and other selected emerging economies ... 35
Figure 4.Regional disparity in MED and other selected emerging economies: Framework conditions ... 36
Figure 5.Distribution of Non-Petroleum Greenfield FDI across Egyptian Governorates and Regions (1992-2008)... 37
Figure 6.Disparity across Tunisian governorates: FDI stock (excluding hydrocarbons), jobs created by FDI projects, and FDI stock per inhabitant, 2015... 38

I. Introduction

1. Most governments in the Southern Mediterranean (MED) region are pursuing active investment promotion and facilitation policies in the hope to attract investment creating jobs and fostering sustainable and inclusive growth. However, differences exist between investment promotion agencies (IPAs) which, together with policymakers, need to make optimal choices reflecting their respective economic context. This is one of the objectives of the second pillar of the EU-OECD Programme on Promoting Investment in the Mediterranean, funded by the European Commission and implemented by the OECD.

2. The objective of this issues note is to provide a basis for discussion and a list of questions for the three topics that will be discussed during the workshop:

1. **The first section provides a short introduction on the objective and scope of a joint IPA survey developed by the OECD and the Inter-American Development Bank (IDB).** This survey will serve as a basis for a similar survey of MED IPAs. The information collected through this survey will allow benchmarking MED IPAs against OECD and other countries IPAs. It will also support peer-learning activities and policy dialogue workshops that are planned throughout the EU-OECD Programme.

2. **The second section offers a preliminary stocktaking of investment incentives in MED economies.** Investment incentives are a common practice in developing countries, despite analysis indicating limited investment response to a lower tax burden relative to revenue forgone. The section presents recent trends in Corporate Income Tax (CIT) in MED economies and provides an initial mapping of the use of investment incentives and the varying practices among MED and ASEAN (Association of Southeast Asian Nations) economies.

3. **The third and last section discusses investment policymaking at the sub-national level and the role of IPAs in promoting investment that supports territorial development**. In MED economies, as elsewhere, FDI tends to be concentrated in some specific geographical regions. While FDI inflows can raise regions' productivity levels and contribute to local job creation, their uneven geographical distribution may hinder the process of regional growth convergence within MED economies. Yet, if well-designed, regional investment policies can help in promoting FDI attraction to less developed regions and thereby reduce regional disparities. The section provides a snapshot of FDI disparity at the sub-national level in MED economies and presents some international experiences in investment promotion decentralisation.

3. This issues note is a draft document. Participants to the workshop are invited to provide comments and suggestions. Subsequent background notes will be prepared to reflect a more thorough comparison of MED IPAs structures and approaches to investment promotion and facilitation based on the result of the MED IPAs survey. According to the expressed needs of beneficiary countries, further background documents could be prepared with the objective to provide a more comprehensive stocktaking of investment incentives and of investment policymaking supporting territorial development in the MED region.

II. IPA's structure and approaches to promotion and facilitation: THe OECD IPA survey

MED IPA structures and approaches to investment promotion and facilitation: Issues for discussion

- What are the most common investment promotion and facilitation practices in MED economies?
- What are the structure, mandate, and most common functions of MED IPAs?
- How MED IPAs differentiate from each other? What are their most common challenges?
- What are international good practices?

4. Most governments in the Southern Mediterranean region are pursuing active investment promotion and facilitation policies in the hope to generate jobs and sustainable growth. Differences exist between IPAs which, together with policymakers, need to make optimal choices reflecting their respective economic context. OECD fact-finding discussions revealed a strong political will, among MED IPAs, to streamline and rationalise the institutional environment governing investment policy and promotion activities, with a view to better achieving investment promotion and facilitation goals. All IPAs express concerns about a lack of coordination across relevant institutions, which often leads to overlapping activities and mandates and sometimes contradictory policy stances across public authorities.

5. Some countries are addressing this challenge by embarking upon institutional transformation, such as merging of existing institutions involved in investment promotion into one umbrella body. For example, the Jordan Investment Commission, established in 2014, is the result of a merger between the former IPA, the agency dealing with economic zones and a sub-body of the SME agency dealing with export promotion. In Morocco, AMDI, the national IPA, will soon merge with the national export promotion agency. Meanwhile in Algeria, the new investment law intends to redefine the functions of the IPA (ANDI), which will not be in charge anymore of delivering incentives and advantages to foreign investors. Other countries are undertaking efforts to reinforce the policy dialogue within the public sector and with the private sector, to ensure a more inclusive and coherent investment promotion strategy. This array of policy reform efforts also is expected to improve and streamline the current complex and time-consuming procedures affecting investors.

6. While one size does not fit all, countries raised questions regarding common good practices on IPAs' appropriate structure and approaches to investment promotion and facilitation. They expressed a strong interest in learning from other countries' experiences. Besides diverse institutional configurations (e.g. the IPA is located in a ministry or is an autonomous institutions; the IPA is only focusing on investment attraction or is also promoting exports), IPAs in the Southern Mediterranean, as in the OECD and elsewhere, differ in terms of their mandate and strategic priorities (e.g. is the IPA mandated to promote greenfield FDI and/or M&As and/or domestic investment; how are sectors chosen), their key functions and tools (e.g. do IPAs grant fiscal and other incentives or only focus on promotion and facilitation activities), the budget and human resources they have at their disposal (e.g. number of staff, education level and qualifications, salaries, etc.). Evidence reveals that these characteristics can have a strong impact on the effectiveness of investment promotion and facilitation (Harding and Javorcik, 2007).

7. In light of the little comparable information at our disposal on IPAs' structure and approaches to promotion and facilitation, the OECD Secretariat started collecting, through a survey, information on IPAs' key functions, activities and priorities. The primary scope of this exercise is IPAs from the OECD and some non-OECD Latin American countries (Box 1). The results of the survey will allow to draw some lessons on existing practices in investment promotion and facilitation and to benchmark IPAs against each other and against international good practices.

8. In the framework of the EU-OECD Programme, it is envisaged to replicate the survey in the MED region. This work could commence with the survey to be sent to the MED IPAs in Q4 2017. The responses would be gathered over Q4 2017–Q1 2018 with results providing a basis for the peer-learning workshops organised throughout the EU-OECD Programme. Activities will focus on exchanging experiences and success stories between IPA practitioners from the MED region and EU countries but also from other regions such as Southeast Asia and Latin America. The final results will be compiled in a report benchmarking MED IPAs with those in EU countries.

Box 1. OECD mapping project of IPAs

The OECD is currently conducting a mapping of IPAs from OECD member countries that aims to look at the key functions undertaken by IPAs and the priority given to each as well as the IPAs' institutional settings and governance mechanisms. The information is being gathered through a comparative survey developed by the OECD and the Inter-American Development Bank, based on the existing international tools (notably the OECD Policy Framework for Investment) as well as inputs from experts.

The survey was launched in May 2017 and 34 IPAs from OECD countries have filled it online. The data and evidence gathered through this survey is currently being processed and analysed by the OECD and is being supplemented by interviews, desk research and workshops. Statistical analysis, country comparisons and benchmarking are currently being conducted to feed into a comprehensive study that will present findings and comparative analysis. It will provide an inventory of existing practices among IPAs in OECD countries and explore what drives the strategic choices made by IPAs and what are the current and emerging trends and practices in investment promotion and facilitation among OECD members. Lessons learned will conclude the study.

The focus areas will include:

- **Structure of the IPA** (e.g. is the IPA part of a broader trade and investment agency or not; is it structured by functions, by regions or otherwise);
- **Mandate and strategic priorities** (e.g. is the IPA mandated to promote greenfield FDI and/or M&As and/or domestic investment; how are sectors chosen)
- **Key functions** (e.g. what are the functions undertaken by the IPA; what is the proportion of the budget allocated to each function)
- **Governance** (e.g. degree of autonomy vis-à-vis supervising ministry; degree of private sector participation in the board)
- **Institutional ecosystem** (e.g. coordination with other national and subnational agencies)
- **Evaluation and monitoring mechanisms** (e.g. existing tools; who is in charge of M&E)

Methodology*:* The information is gathered through a survey, face-to-face interviews during fact-finding missions, videoconferences and desk research. The survey is developed by the OECD Secretariat based on the existing international tools (notably the OECD Policy Framework for Investment) as well as inputs from experts. The first version of the survey has been tested with representatives of the IPAs before being circulated to all participating IPAs. Once the data is gathered, follow-up interviews would be undertaken to fill in missing information and deepen the understanding of different approaches. The data will be processed and analysed by the OECD staff and a report will be produced to present findings and comparative analysis.

III. Investment incentives in the MED region: Preliminary stocktaking

Tax incentives in MED economies: Issues for discussion

- **Governance of investment incentives:** What government entities are mandated to oversee the introduction and granting of tax incentives in your country? How does your government ensure that investment incentives fulfil sometimes distinct objectives of various government authorities? How are investment incentives legislated in your country – in the tax law, investment law, in both, or other? What are your government most important challenges in governing tax incentives and how is the government addressing them?
- **Monitoring and re-evaluation of investment incentives**: What mechanism has your government put in place to monitor and re-evaluate the efficiency and effectiveness of investment incentives? Is your government using temporary rather than permanent incentive schemes, requiring a regular reconsideration whether an incentive should be continued, reformed or repealed? Are investment incentives offered subject to eligibility criteria?
- **Targeting of incentives:** Is your government using targeted investment incentives – in terms of sectors and supported activities (e.g. supplier linkages, R&D, high-tech, training, etc.)? If so, has your government assessed whether the targeted investment approach is effective in meeting its intended policy objectives? Why has your government chosen to use targeted rather than broad-based investment incentives?
- **Instrument choice:** What investment incentive instruments (e.g. tax holiday, tax reduction, tax deduction and credits, subsidy, grant, etc.) is your government using? What has been the rationale in choosing specific instruments rather than others?

9. This section takes stock of investment incentives in MED economies and compares them with other economies facing similar development challenges, especially in the ASEAN (Association of Southeast Asian Nations) region. In MED economies like in many countries, and mostly in developing countries, tax incentives are routinely chosen by governments to attract investment in general, and foreign direct investment (FDI) in particular, and this despite analysis indicating limited investment response to a lower tax burden relative to revenue forgone (OECD, 2015). Investment incentives are a common practice in developing countries as it is often easier to provide tax incentives than to correct structural deficiencies in the economy, for example, infrastructure or skilled labour. Tax incentives do not require an actual expenditure of funds or cash subsidies to investors and are politically easier to provide than public funds. Indeed, domestic savings, especially in emerging and developing countries, could be so low and financial intermediation so weak, that they are insufficient to finance economic expansion, effectively limiting business resources for investment. In such environments, a lower tax burden is thought to attract FDI as a source of external finance.

10. Tax systems may impose a non-uniform effective tax rate on different businesses, depending on their size, ownership structure (e.g. domestic versus foreign-owned), business activity or location (OECD, 2015). Certain firms may be specifically targeted to receive preferential tax treatment. Where tax relief is targeted, policy makers should examine and weigh arguments in favour of and against such treatment, and ensure that the different treatment can be properly justified. Some investment incentives have redistributive goals, for example, policies aimed at increasing investment and bolstering employment and growth in

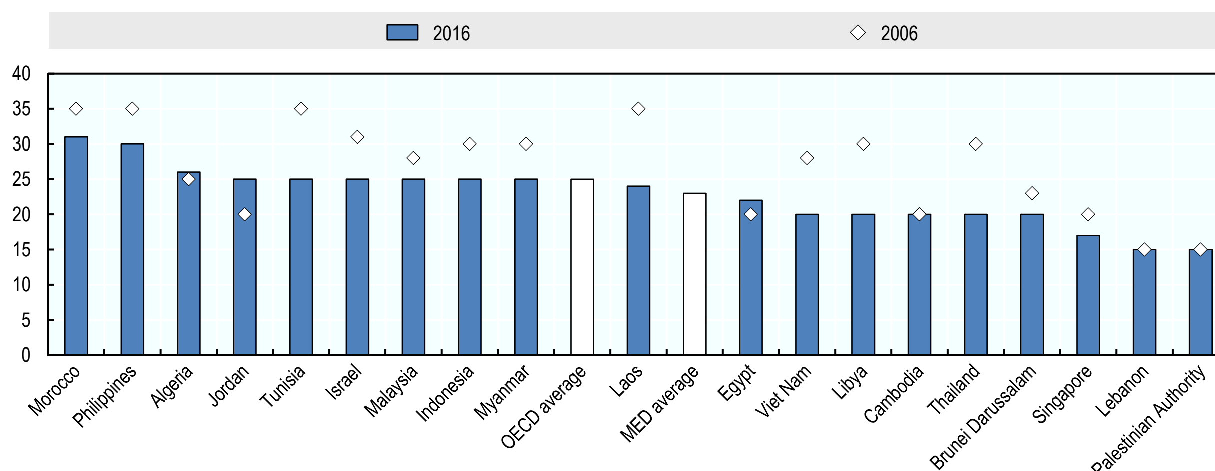
poorer parts of a country. Tax burden measures that vary considerably from one investment type to another must be explained. Policy makers want to know whether their targeted investment approach is effective in meeting its intended policy objectives (e.g. encouraging investment in disadvantaged regions). Beyond this, efficient targeting requires accurate estimates of the amount of tax revenue forgone in order to compare the realised benefit against the costs associated with the targeted incentives. Further considerations in targeting tax incentives involve containing tax relief to targeted firms/activities only (e.g. to small businesses) (OECD, 2015).

11. Statutory corporate income tax (CIT) rates are the first reference point for foreign and domestic investors when evaluating tax competitiveness of a jurisdiction. However, the entire tax regime – including the array of available tax incentives – needs to be taken into account when evaluating whether a tax system provides an enabling environment for investment. The most common types of tax incentives are tax holidays (periods during which an investment is fully exempt from taxation); reduced tax rates (applicable corporate tax rates below CIT); tax credits and investment allowances/deductions; and accelerated depreciation. Tax deductions or allowances allow deducting certain expenses (e.g. on training programmes, R&D activities, capacity building of SMEs, environmental protection, automation) or revenues (e.g. export revenues) from taxable income. Tax credits are similar but enable investors to use such expenses directly to reduce the amount of taxes owed and are therefore yet more generous than deductions. Accelerated depreciation is another tax deduction method that allows deduction of high expenses from an income tax base in the first years of the life of an asset and lower expenses deductions as the depreciated item ages. Besides incentives directly affecting the income taxes, exemptions from import and export taxation as well as VAT are common measures used to attract domestic and foreign investment, or target investment into specific activities, sectors and regions.

Trends of corporate income taxes in MED economies

12. Over the past decade, the average CIT rate in MED economies has remained roughly constant, with a variation from 23% to 22% in 2016 (Figure 1). It is lower than the current average CIT rate in OECD countries (25%) but approximately the same as in ASEAN countries (23%). All MED economies have a flat CIT rate, except Morocco. Adopted in 2016, Morocco applies a proportional CIT system, with rates ranging from 10% and 31% depending on net income (see appendix A for more details). Algeria has the second highest CIT rate (26%). In Israel, Jordan and Tunisia, CIT rates stand above the MED average. Lebanon and the Palestinian Authority apply a similar CIT rate of 15%, which is the lowest rate both among MED and ASEAN countries.

Figure 1. CIT rate (in %) in MED and ASEAN economies in 2006 and 2016



Note: 2006 data is not available for Palestinian Authority, Laos, and Brunei Darussalam. Figures are respectively for the years 2009, 2005, and 2010.

Source: Based on KPMG (2017), Tax Tools & Resources (*database*).

13. Just like countries in ASEAN, several MED economies reduced their CIT rates over the last decade. Libya and Tunisia are the countries that have most significantly lowered their CIT rates, with a decrease of 10 percentage points over 2006-16. In a similar vein, firms operating in Morocco whose incomes are below 300 000 MAD (27 000 EUR) have benefitted from a sharp drop in their tax rate with a rate of 10% after the 2016 reform, compared to the prior uniform rate of 35%. During the same period, Israel decreased its CIT rate by 6 percentage points and is expected to continue lowering CIT rates to 23% by 2018 (PwC, 2017a). Meanwhile, Jordan, Egypt and Algeria have slightly increased their CIT rates. Lebanon is the only country which has not changed its CIT rates over 2006-16 (15%). Likewise, the Palestinian Authority has not changed its CIT rate since 2009 (15%).

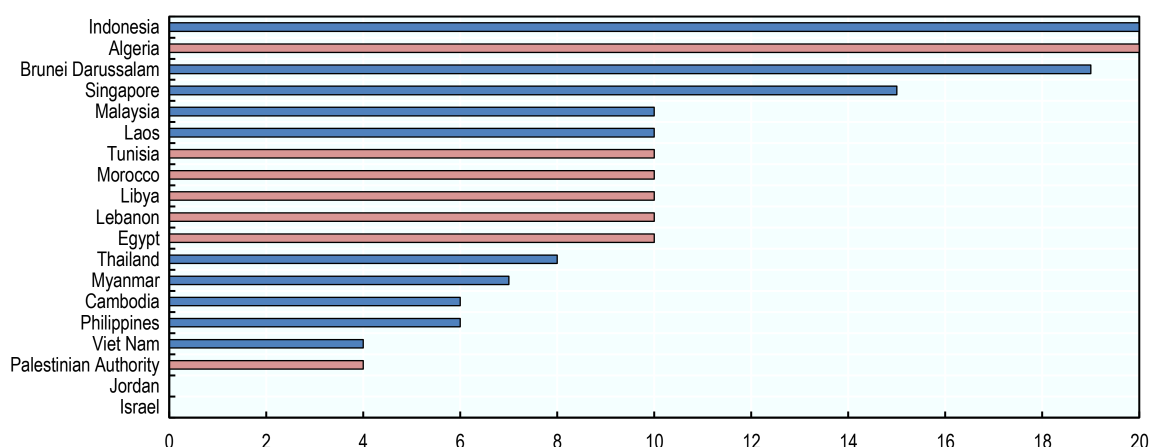
Use of tax incentives in MED economies

Tax holidays

14. Investment incentives regimes in most MED and ASEAN countries include tax holiday schemes (Figure 2). Tax holidays may be provided to firms operating in a specific eligible sector or within a delimited geographic area. The data presented do not take in consideration tax holidays that could be exceptionally granted on a discretionary basis by national or local authorities.

15. The maximum length of tax holidays varies significantly across countries. On average, the maximum length is 8 years in the MED region and 11 years in the ASEAN region. In ASEAN, all countries have tax holiday schemes, and five of the ten countries offer more than 10 years of complete tax exemption. Tax holidays in ASEAN range from 4 years (Viet Nam) to 20 years (Indonesia).

Figure 2. Income tax holidays in MED and ASEAN (maximum number of years)



Source: National government website.

16. Among MED countries, only Jordan and Israel do not offer tax holidays, although both countries have provided such incentives in the past: 2 years in Jordan and 10 years in Israel (OECD, 2008; PwC, 2017). Five of the seven MED countries providing tax holidays grant tax holidays up to 10 years: Tunisia, Morocco, Libya, Lebanon and Egypt.

17. Tax holidays are often granted based on two criteria: The sector of activity and the geographical location of the investment. For instance, Egypt, Morocco and the Palestinian Authority offer tax holiday schemes to firms operating in specific sectors such as agriculture and tourism. In contrast, Algeria and Lebanon grant tax holidays (of different lengths) that are subject to projects' geographical location. For example, Algeria provides a three-year tax holiday to companies established in the North and a ten-year tax holiday to companies established on the High Lands and in the South. This length can be extended to 10 additional years for strategic projects with a positive impact on the national economy. Tunisia is the only country that provides tax holidays depending on both projects' sector and geographic location. For instance, a ten-year tax holiday is offered to firms operating in the agricultural sector or those established in Regional Development Zones. In Libya, all companies benefit from tax holidays (up to 5 years) regardless of the sector and location they are operating. This period can be extended to 5 more years for firms located in specified development areas, operating in the food industry, or participating in the protection of the environment.

Tax reduction

18. CIT tax reductions are often used in combination with tax holiday schemes. Following a period of complete tax exemption, firms may be eligible for a temporary or permanent reduction of CIT rates. Almost all MED economies have tax reduction schemes, either temporary or permanent, that apply for firms operating in certain sectors or specific regions with the country. Regions that benefit from such incentives are most often Free Zones or less developed or disadvantaged regions. Within ASEAN, only half of the countries are using this instrument.

19. The wedge between CIT rates and rates applied to firms benefitting from the highest possible reduction is significant, both in MED as well as in ASEAN countries. Among all MED and ASEAN countries, Morocco and the Philippines have the largest wedge between their standards CIT rate and the lowest reduced rate. For example, in Morocco, while companies with the highest incomes are subject to a CIT rate of 31%, companies located in Export Free Zones can benefit from a reduced CIT rate of 8.75%

for 20 years starting at the end of the tax holiday period. Thus, while the standard CIT rates are comparatively high, the reduced rates in these two countries are more generous than elsewhere. Meanwhile, Lebanon and Myanmar have the smallest gap between their statutory CIT rate and their most generous reduced CIT rate.

20. Most of the MED economies using income tax reduction schemes may apply tax reductions of more than 50% of CIT rates. In Jordan, where the standard CIT rate is at 20%, companies operating in the Information and Communications Technology (ICT) sector may be eligible to benefit from a permanently reduced rate at 5%. Similarly, Israel applies a permanent 5% CIT rate to companies with the so-called Special Priority Enterprise status and established in one of the National Priority Regions (such as the Negev Desert). Algeria and Lebanon are the only two countries in the region to limit their CIT reduction to just 50% of the standard rate. Both countries may apply a 50% CIT reduction for a period of 5 years to companies established in less developed areas.

Varying practice of incentives for targeted activities

21. MED economies use tax and non-tax incentives for various purposes:

- Promote export activities;
- Promote research and development activities;
- Support specific sectors: high-technologies and automation;
- Support social development by enhancing employment or providing training/ enhancing skills;
- Relocate regional and international headquarters;
- Promote less developed regions, including using Industrial Zones or Special Economic Zones;
- Invest in infrastructure;
- Import specific goods and services to promote local industries;
- Promote local sourcing;
- Facilitate access to land and real estate to foreign investors.

22. Table 1 shows that almost all MED and ASEAN economies offer tax incentives to export-oriented activities, often under the form of a custom duty exemption. One example is the offshore regime in Tunisia, where firms exporting more than 70% of their production receive CIT exoneration and custom duty exemption. Most of MED economies also provide custom duty exemption on imported goods. This exemption mainly applies to equipment (e.g. machinery) used for local production purposes as well as inputs to local products to be re-exported. These tax incentives are not directly affecting CIT or CIT rates. However, they are affecting costs of investments and therefore indirectly influence incomes (or taxable incomes) and thus investment decisions (OECD, forthcoming). Among MED economies, Lebanon seems to be the only country which does not offer such incentives. Similarly, in ASEAN, Viet Nam, Thailand and Brunei Darussalam do not provide import and export incentives.

23. Almost all MED economies and ASEAN member states have adopted tax incentive schemes to promote regional/territorial development. Essentially, countries often offer tax incentives to companies established in specific locations, including Special Economic Zones and less developed territories. The form of the tax incentives can vary, from custom duties exemption to income tax holidays and reductions. For example, specific tax incentives are granted to investment projects in Algerian and Israeli deserts. Most countries also divide their territory into several zones, providing different levels of tax incentives. This is the case of Lebanon, which divides its territory into 3 zones, (A, B, and C), but also of Algeria, Egypt (2

zones according to the investment law) or TunisiaSee Annex. Most MED economies have also created Special Economic Zones with specific tax regimes.

24. MED and ASEAN economies also use tax and non-tax incentives to support certain activities. Companies investing in R&D in Israel have, for example, the possibility, to deduct their research expenses from their CIT base. While ASEAN member states often offer tax holidays or reduction to companies operating in the high-technology sector, most MED economies do not provide for such incentives. Jordan seems to be the only country that applies a specific CIT of 5% to companies operating in this sector. Employees' training is also often considered as a deductible expense in ASEAN. Yet, MED economies do not provide tax incentives for this activity. Instead, Egypt, Israel, Jordan, Morocco and Tunisia encourage employees' training through direct subsidies.

25. Some MED countries, such as Morocco and Tunisia, are very cautious in granting tax incentives (Table 1). In general, these countries limit these incentives to import, export and delimited geographical areas. Support to strategic sectors, defined by countries, is achieved primarily through subsidies. Similarly, aid for social development, protection of the environment and real estate acquisition is provided through public subsidies. Meanwhile, Algeria and Jordan make greater use of tax reductions, deductions and exemptions to support the development of targeted sectors such as automotive, aerospace, chemical and pharmaceutical industries, etc.

Table 1. Preliminary stocktaking of tax and non-tax incentives types in MED and ASEAN economies

	Local sourcing promotion	Employment, training and skills, gender, diaspora	R&D and other strategic business services	Environmental protection	Real Estate/Land acquisition	High-tech/automation	Export	Import	Headquarter	Territorial/SEZs	Infrastructure
Algeria		Loans	Deduction	Loans	Deduction		Exemption	Exemption		TH/Reduction/Loans	
Egypt		Grants			Exemption/Grants		Exemption	Exemption		Exemption/Deduction	
Israel		Grants	Deduction				Exemption/Grants			Reduction	
Jordan		Grants		Exemption	Exemption	Reduction	Exemption	Exemption		Reduction	
Lebanon					Exemption					TH/Reduction	
Libya				Tax Holiday			Exemption	Exemption		Tax Holiday	
Morocco	Grants	Grants	Grants	Grants	Grants	Grants	TH/Reduction	Exemption	TH/Reduction	TH/Reduction	Grants
Palestinian Authority	Tax Holiday						Exemption	Exemption		Reduction	
Tunisia		Grants	Grants	Grants			Reduction	Exemption		Tax Holiday	Grants
Philippines							Exemption	Exemption	Reduction	Reduction	Deduction
Cambodia							Exemption	Exemption		Exemption	
Viet Nam		Tax credit	Deduction		Exemption/Reduction	Exemption/Grants		Exemption		TH/Reduction/ Reduction/Exemption	Exemption/Reduction
Laos					Exemption		Exemption	Exemption		Tax Holiday	
Malaysia	TH/Reduction/ Other financial incentives	Deduction	TH/Reduction/Other financial incentives	Reduction		TH/Reduction	Exemption			Reduction	Deduction
Thailand	Exemption	Deduction	Deduction					Exemption	Tax Holiday	Tax Holiday	Deduction
Indonesia						Tax Holiday	Exemption			Deduction/Exemption	Tax Holiday
Singapore		Deduction/Grants	Deduction/Grants			TH/Deduction	Exemption	Exemption	Reduction	Exemption	
Myanmar		Deduction	Deduction			Tax Holiday	Exemption	Exemption		Reduction	
Brunei Darussalam		Deduction		Deduction	Deduction			Exemption			

Pattern	Legend
(dotted)	**Financial incentives**
(vertical lines)	**Tax incentives**
(diagonal lines)	**Both**

Source: OECD preliminary stocktaking based on national government website and on OECD (forthcoming).

IV. Regional investment policymaking and the role of IPAs in promoting local attractiveness

Regional investment policymaking in MED economies: Issues for discussion

- Is the national investment promotion strategy embedded into regional development strategies?
- Are there IPAs at the sub-national level? What are the challenges faced by these IPAs? What are the co-ordination mechanisms between IPAs at the national and sub-national level?
- Is the national investment promotion strategy implemented in partnership with sub-national entities (i.e. with provincial/regional/local IPAs) so as to avoid investor fatigue and costly duplication of efforts? If so, what level of autonomy do local IPAs enjoy?
- Do IPAs regularly collect and publish statistics on foreign and domestic investment at the sub-national level?
- Is the granting and administration of tax incentives decentralised? Can this function be carried out by both the central and sub-national governments and what are the coordination mechanisms?
- Does the government ensure coordination across relevant domestic government bodies as well as with sub-national government bodies and authorities on cross cutting issues related to Responsible Business conduct such as anti-corruption, employment or environment protection?

26. This section focusses on the role governments and their IPAs can play in promoting and facilitating investment that supports territorial development. In MED economies, as elsewhere, foreign-owned firms tend to be more concentrated in some geographical locations (regions, governorates, cities, .etc.) than in others.[2] While FDI inflows can raise regions' productivity levels and contribute to job creation, their unequal distribution within a country may hinder the process of regional economic convergence. Yet, if well-designed, regional investment policymaking can help in attracting FDI to less developed regions and thereby reduce regional disparities. After briefly discussing the determinants of FDI location decisions and benefits to host regions, the section provides a snapshot of FDI disparity within MED economies. The section then presents a number of international experiences in investment promotion decentralisation and regional investment policymaking.

The determinants of FDI location at the territorial level

27. There is a multitude of factors that influence the location choice of foreign investors within a country. Besides *endowment effects* associated with a particular location, foreign investors are attracted to locations with an already large pool of other domestic and foreign investors, both hard (transport, electricity, etc.) and soft (ICT) quality infrastructure, a skilled labour force, and geographical proximity to the foreign investor home region (Copenhagen Economics, 2006; Dunning and Lundan 2008). Another crucial factor is the presence of local competitors, clients and suppliers within the foreign investor's

[2] The section uses interchangeably the terms "regional", "territorial, and "location" to refer to the sub-national level.

industry. These factors influencing investors' location decision are often referred to as part of an *agglomeration effect*, which implies that firms co-locate in areas where sources of knowledge and labour are high and where there is a cost-effective access to specialized inputs (Dunning and Lundan 2008). The agglomeration effect creates a self-reinforcing loop that is associated with positive externalities, i.e. the establishment of an activity in a given location attracts other activities, thereby generating a "virtuous circle" for the host location.

28. Informational externalities play a significant role in feeding this agglomeration virtuous circle. When prospecting potential investment locations, foreign firms often face information asymmetry and business uncertainties that results in high information costs (Mariotti et al. 2010). They usually rely on both publicly and privately available sources of information in order to investigate about a specific location and take a decision. However, publicly available information about the business environment at the regional level is often scarce in developing countries, including in MED economies (Hanafy, 2014). As a consequence, foreign investors end up relying mostly on private information. They tend to mimic the decisions of already established investors and, consequently, existing agglomerations of investments become signals that reduce information costs (Mariotti et al. 2010; Hanafy, 2014).

29. Regional policies, and the institutions in charge of implementing them, are also a relevant factor in attracting investment to a given location (Dunning and Lundan 2008). These policies include broader regional business climate policies, such as public investment in education and infrastructure, support to local firms, and financing R&D activities. Other policies are designed specifically to influence the location choice of foreign investors such as fiscal and financial incentives, the creation of free or special economic zones, or the creation of sub-national institutions in charge of investment promotion and facilitation. Such institutions could help in reducing information costs foreign investors face when deciding about an investment location within the country (see sub-section on regional investment policymaking).

FDI impact on territorial development

30. FDI can have positive effects on hosts countries' regions. It can play an important role in raising a region's technological level, its productive capability and its ability to compete in international markets. Foreign firms bring also new knowledge and new management skills, and local firms can learn from this. A study assessing FDI impact on regional development on the European Union countries finds that host region productivity spillovers from FDI are generally positive and significant (Copenhagen Economics, 2006). Local firms increase their productivity as a result of foreign investment in their region. Furthermore, FDI increases aggregate regional labour demand, even if some labour demand adjustments across sectors can take place in the short-term.

31. At the same time, FDI inflows may affect the different regions of an economy unevenly and, consequently, exacerbate regional disparities (Lessmann, 2013). According to a recent OECD report (OECD, 2016), the widening gap in productivity growth between OECD regions may have contributed to labour productivity slowdown at the aggregate level. This gap between frontier and lagging regions is strongly driven by agglomeration effects that increase productivity in regions that contain large cities (ibid). FDI might increase such spatial inequalities since different regions of a country usually do not receive FDI in equal amount. FDI tends to concentrate in regions of high productivity, which may reinforce existing spatial asymmetries in production structures and capabilities within a country and thereby hinder regional growth convergence. In addition, the beneficial effects of FDI at the regional level are subject to the so-called 'absorptive capacity' of domestic firms (Fu, 2008). It follows that foreign investments in less developed regions may have a lower potential for positive spillovers as the knowledge distance between foreign and domestic firms can be too important. This is corroborated by OECD work showing that the breakdown of the knowledge "diffusion machine" across firms may have had a strong

negative impact on lagging regions disconnected from highly productive firms such as MNEs (OECD, 2016).

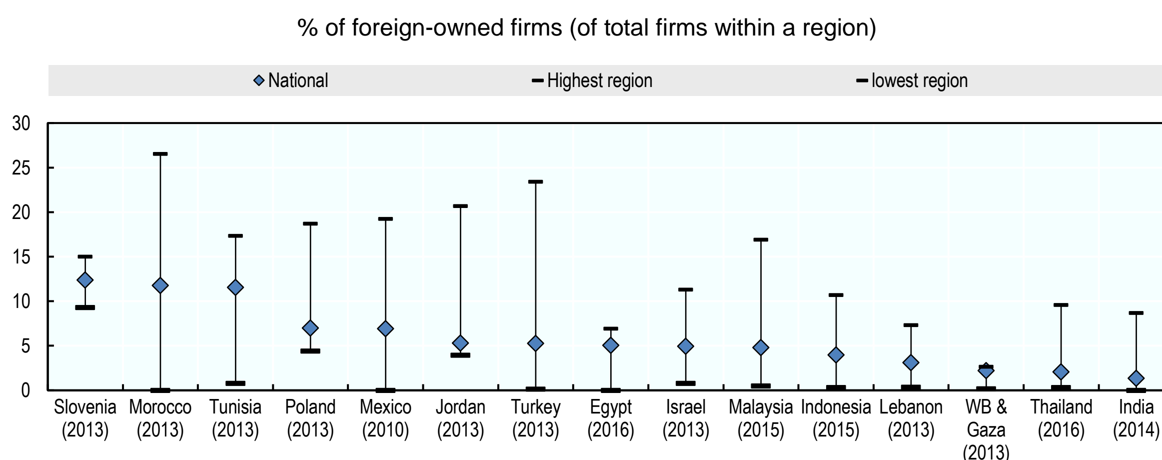
32. The relationship between FDI and regional inequality is also conditional on the stage of economic development a country is at. Evidence has shown that FDI has a stronger positive effect on regional inequalities in developing economies compared to more advanced countries (Lessmann, 2013). Such difference can, to some extent, be explained by higher labour mobility in advanced countries as well as by effective government reallocation policies that mitigate the negative re-distributional impact of FDI on regional inequality (Ibid). In less developed economies, poor infrastructure and weak fiscal capacities limit the possibility for enhanced labour mobility and government capacity for fiscal redistribution. The relationship between FDI and regional disparity may also be affected by possible patterns in the type of investments received, and the sector in which foreign investors operate, across the different regions of a country.

FDI and territorial development in MED economies

33. Foreign-owned firms in MED economies are more concentrated within some specific regions than in others (Figure 3). This unequal geographical distribution of FDI is not specific to MED economies and is common to all countries. However, the levels of FDI spatial inequality diverge across them. FDI disparity among MED economies does not seem to be particularly high when compared to other emerging countries, with the exception Morocco. The country exhibits the highest levels of disparity, measured as the percent of foreign-owned firms out of all firms (domestic and foreign-owned) within the same region. For instance, in the region of Chaouia-Ouardigha, around 26% of firms are foreign-owned while in other Moroccan regions they are not at all established.[3] Tunisia and Jordan present similar, but lower levels of disparity than Morocco. Figure 4 shows that high disparities in foreign-owned firms spatial locations can be found in both small (Malaysia) and large emerging countries (Turkey). One limitation of the measure used in figure 4 is that it only captures the number of foreign-owned firms and not the actual amount of foreign investment. In general, the lack of comparable statistics makes it challenging to determine whether FDI spatial distribution in MED economies is more unequal than elsewhere.

Figure 3. FDI regional disparity in MED and other selected emerging economies

% of foreign-owned firms (of total firms within a region)



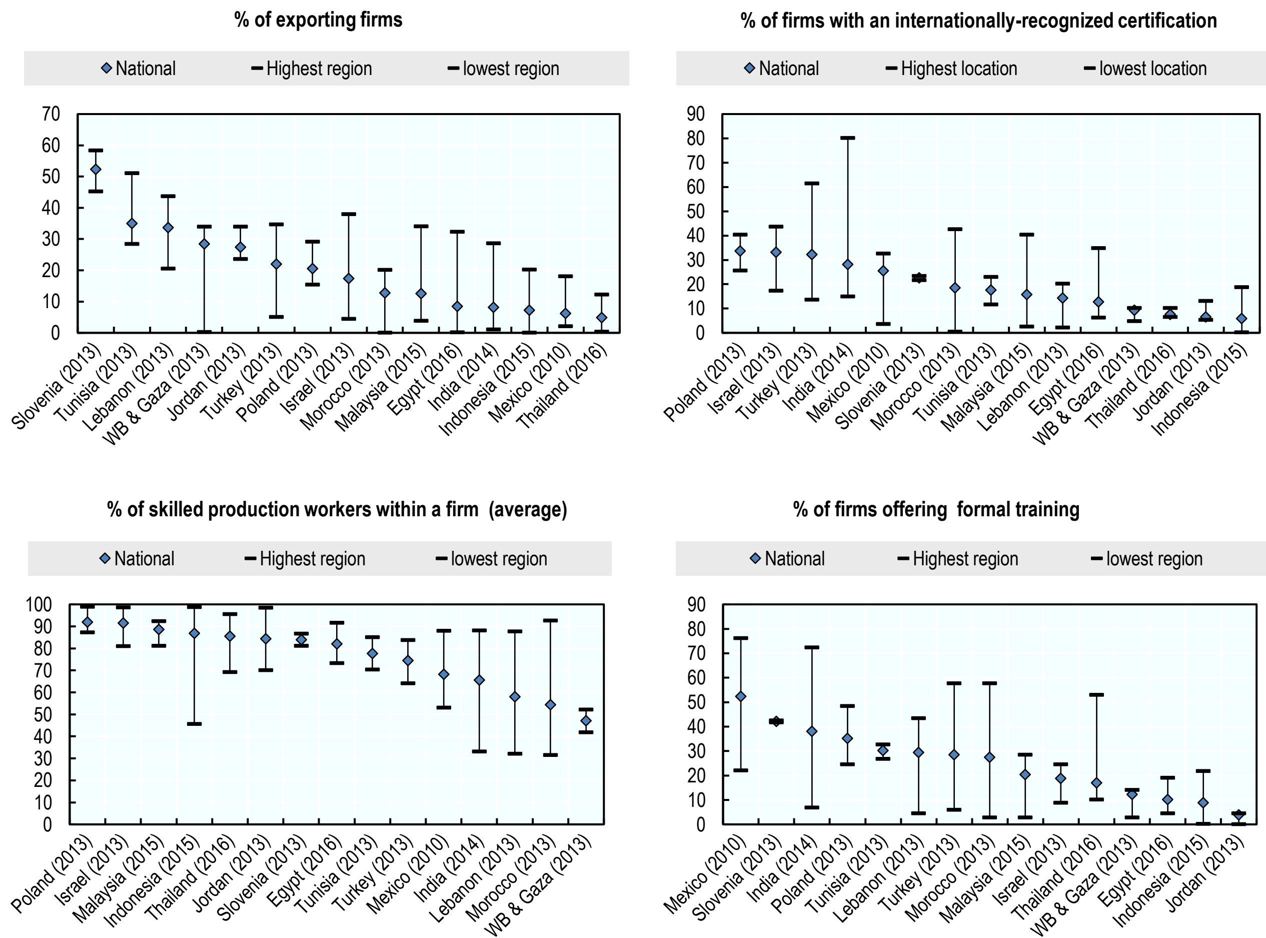
Note: Number of regions included in the survey: Egypt (7), India (23), Indonesia (9), Israel (5), Jordan (5), Lebanon (6), Malaysia (5), Mexico (8), Morocco (11), Poland (6), Slovenia (2), Thailand (5), Tunisia (5), Turkey (6), West Bank & Gaza (2).

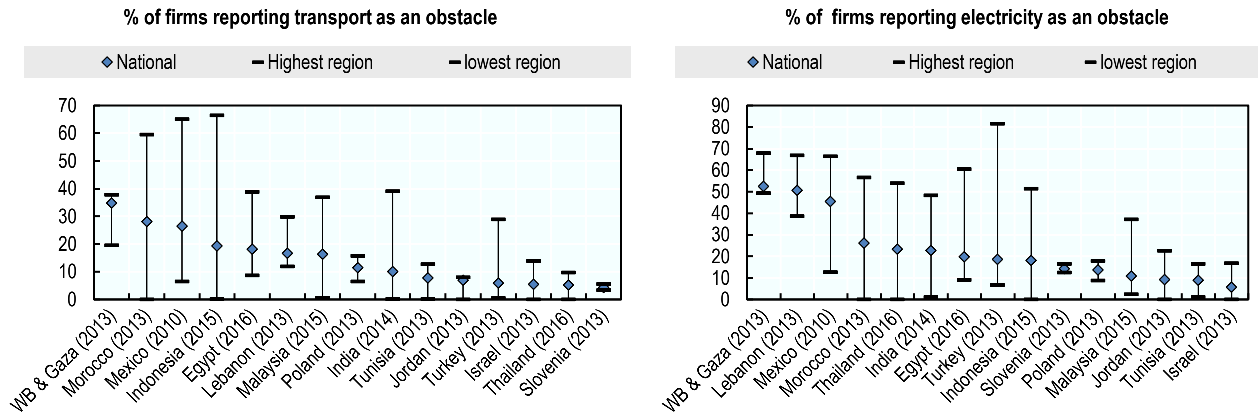
[3] This was the name of the region before the "redécoupage territorial" in 2015. The 4 provinces composing the Chaouia-Ouardigha governorate are now part of Béni Mellal-Khénifra and Casablanca-Settat governorates.

Source: OECD preliminary assessment based on the World Bank Enterprise Survey.

34. The factors mentioned previously may explain the differences observed in foreign-owned firms' disparity across MED and other emerging countries. Figure 4 shows disparity levels related to region's integration in global markets (export), the availability of a skilled regional labour force, and the quality of infrastructure (transport and electricity). With the exception of Jordan, regions within MED economies are highly unequal with respect to the percentage of exporting firms they each host. Disparity in the percentage of firms with an internationally recognised quality certification is also very important in Morocco and Egypt. With respect to the availability of skilled workers, disparities are the highest within Morocco and Lebanon. In addition, both countries exhibit large disparities with respect to the percentage of firms offering training to their employees. There are also considerable levels of regional disparity with respect to the quality of infrastructure (both transport and electricity), particularly in Morocco, Egypt and, to a lesser extent, in Jordan and Lebanon. Overall, as for FDI, the disparity between the best performing and lowest performing region is the highest in Morocco, with levels that are similar to those in Turkey and Mexico. Besides important FDI spatial disparity, regions in Tunisia do not seem to differ much with respect to the factors shown in figure 4. The relatively low spatial disparities in Poland and Slovenia suggest that the geographical size is not necessarily an impediment for a more homogenous business climate within a country's regions.

Figure 4. Regional disparity in MED and other selected emerging economies: Framework conditions



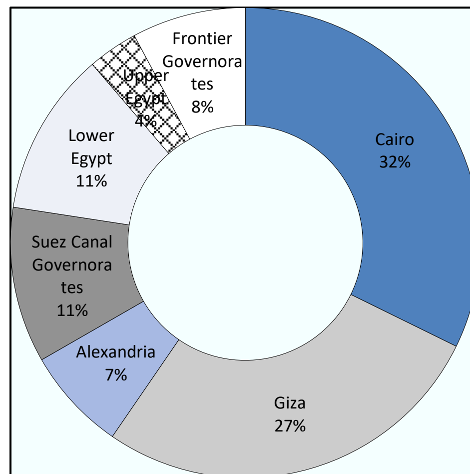


Note: Number of regions included in the survey: Egypt (7), India (23), Indonesia (9), Israel (5), Jordan (5), Lebanon (6), Malaysia (5), Mexico (8), Morocco (11), Poland (6), Slovenia (2), Thailand (5), Tunisia (5), Turkey (6), and West Bank & Gaza (2).

Source: OECD preliminary assessment based on the World Bank Enterprise Survey.

35. Some countries in the MED region have more detailed statistics on the spatial distribution of FDI. For instance in Egypt, data compiled by Hanafy (2014) revealed that more than 60% of non-petroleum greenfield FDI stock has been accumulated between 1992 and 2009 by two governorates, Cairo and Giza, and roughly 90% of FDI stock targets only 10 governorates out of 27 governorates (Figure 5). There are also differences in the degree of geographical concentration of FDI between various economic sectors. Service FDI shows the strongest spatial concentration (mostly in the ICT and finance sectors), while manufacturing FDI is most geographically dispersed (ibid). As for other countries, Hanafy (2014) finds that domestic private investment, well-functioning Free Zones, as well as labour abundance positively influence the distribution of FDI across Egypt's governorates. However, with the exception of Free Zones, and in contrast with other countries, regional policies in Egypt such as the existence of OSS offices in some specific regions are found to not affect FDI distribution in the country.[4]

Figure 5. Distribution of Non-Petroleum Greenfield FDI across Egyptian Governorates and Regions (1992-2008)



Source: Reproduced from Hanafi (2014), based on statistics provided to author by GAFI.

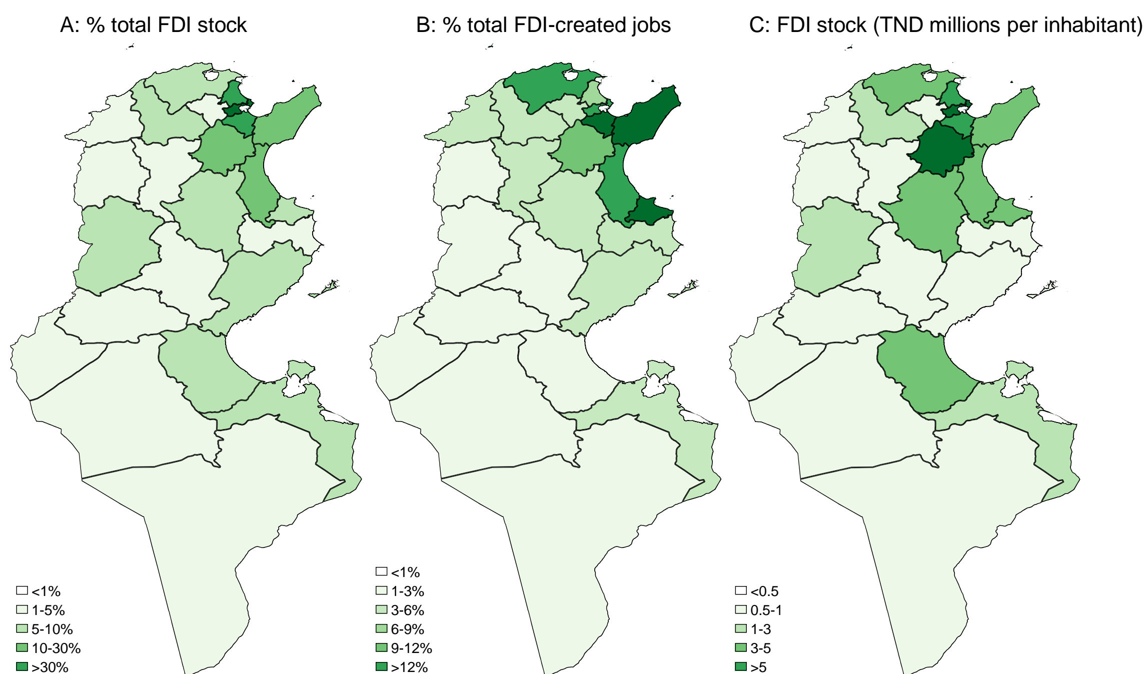
[4] Regional investment policies included whether there is in the region a GAFI representation, whether there is an industrial zones, and the amount of public investment.

36. In Lebanon, the geographical distribution of foreign-owned projects, as collected by IDAL, indicate that Mount Lebanon attracted the highest share in 2016 (48%), given the presence of industrial zones and a competitive labour force (IDAL, 2016). As for the Bekaa the percentage of projects in this region increased from 12% in 2015 to 19% in 2016. The remaining projects were distributed between Beirut (12%), North Lebanon (11%) and South Lebanon (10%).

37. Morocco is largely benefitting from foreign direct investment (FDI) which represented 3.1% of GDP in 2015. However, FDI is still concentrated in few developed regions. Four regions out of 16 concentrate over 80% of the inward FDI stock (Ettoumi et al., 2015).[5] These regions are the Grand Casablanca, Tanger-Tetoaun, Rabat Salé, and Marrakech Tansif al Haouz and these are the same regions that contribute to more than 60 % of the country's GDP. Human capital is found to be an important determinant of attracting more FDI in Morocco and improving it could benefit all regions (ibid).

38. Agglomeration forces and FDI played an important role in the development of Tunisian coastal regions, including through job creation. At the same time, there are strong challenges in attracting foreign and domestic investment in regions with poor infrastructure and inadequately skilled labour force. The geographical disparity in the distribution of FDI is relatively high. For instance, more than 30% of FDI stock in the country is concentrated in the capital (Figure 6, Panel A). In general, the coastal regions retain more than 80% of FDI (excluding hydrocarbons). FDI disparity between coastal and inner Tunisian governorates remains high even when controlling for the population of each governorate (Figure 6, Panel C). In 2015, FDI inflows to Regional Development Zones (RDZ), which benefit from supplementary fiscal and financial incentives, accounted for 21% of total FDI inflows and were concentrated in electronic and mechanical industries, textiles, and agro food. FDI disparity in Tunisia is strongly driven by existing industrial diversification spatial disparities, where coastal governorates are more industrially diversified than those in hinterlands and southern Tunisia (African Development Bank, 2014).

Figure 6. Disparity across Tunisian governorates: FDI stock (excluding hydrocarbons), jobs created by FDI projects, and FDI stock per inhabitant, 2015



[5] Morocco included 16 regions before the "redécoupage territorial" in 2015 which brought their number to 12 regions.

Source: OECD based on the Annual Report of the Tunisian Foreign Investment Promotion Agency (FIPA) and INS.

Regional investment policymaking: Focus on investment promotion and facilitation

39. FDI is sensitive to regional policy factors, thereby implying that regions can improve their attraction of FDI. However, policymakers should be aware of the limits of regional investment policymaking as other features cannot be influenced at the regional level, such as firm-specific conditions, macroeconomic features, market size, geography and language, are at least as important in attracting FDI (Copenhagen Economics, 2006).

40. Governments, including in MED economies, often use different regional promotion policies to attract investment to relatively less developed regions. The most common policy tool is to offer businesses tax incentives to invest in less developed regions. All MED economies provide tax incentives to promote regional development (see section 2). However, international evidence has shown that the effect of fiscal and financial investment incentives on FDI is small compared to the other determinants (Faeth, 2009). Fiscal reductions (such as tax holidays) or subsidies to attract foreign investors may result in higher profits for foreign firms and welfare for their home regions without benefiting the host regions.

41. Instead, evidence suggests that policies and measures aiming to integrate regional inward investment agencies into regional growth strategies could be more effective for regional development. Such measures include better informing and helping foreign investors see the potentials of the regions (lower information costs) and improve the regions business climate by removing burdensome regulatory barriers (Copenhagen Economics, 2006). Furthermore, by improving the region's skills and human capital and modernising infrastructure and research and development, a region does not only become more attractive to foreign firms, but can also benefit more from foreign investment through the spillover mechanisms and higher absorptive capacities (ibid).

42. Within an overarching strategy to improve the business climate at the sub-national level, decentralisation is often hailed as a channel to improve effective investment promotion and facilitation. In decentralised states, sub-national levels of government are to some extent bound to legislative, operational and other constraints set at the national level. On the other hand, decentralisation can present good opportunities for local innovation and progress by making some aspects of the political process more efficient, as well as constructive peer-learning across sub-national government entities. Local governments can seek to push reform and improvements in their investment regime to the greatest extent possible, while avoiding duplication of activities or contradictions in investment laws and policies vis-à-vis the central government. A well-informed sub-national strategy for improving the investment climate must target specific reform areas where local governments' room for manoeuvre is greatest, and where gaps at central level can be filled by decentralised action.

43. The next sub-section provides examples of countries that have conducted economic decentralisation – successfully or less so – and its implications on investment policymaking and implementation. It focuses on decentralisation of investment promotion activities and agencies, the improvement of the business environment at sub-national level and the importance of effective co-ordination amongst different levels of government. These examples show that decentralisation can lead to investment climate reforms and improvements but need adequate accompanying measures. The right sequencing of decentralising power and regulations is critical as the process entails complex implementation challenges. In particular, it requires building capacity at the local level, strong and transparent monitoring capacity at the central level, good co-ordination among the different levels of government and agencies country-wide, and balancing and harmonising national and local development priorities.

Decentralisation of investment promotion in MED economies

44. While almost all countries have established a national investment promotion agency (IPA), an increasing proportion of countries have also set up IPAs at sub-national level. Sub-national IPAs have mainly been created in countries that have decentralised forms of government, such as federal states. Yet, an increasing number of centralised states are involving sub-national levels of government in the promotion of various geographical areas. This is the case in most OECD countries, where sub-national IPAs are in charge of promoting their respective regions, states, provinces or cities as investment locations and of linking multinational enterprises (MNEs) more closely to the local economy. Emerging economies such as Brazil, China, India, Indonesia, Malaysia, South Africa and Viet Nam have also developed wide networks of sub-national IPAs. In most cases, sub-national agencies are independent from national IPAs and/or their infra-national offices (see the example of Nigeria below). The latter are usually mostly geared at acting to facilitate introductions to sub-national level IPAs and at operating a policing role to avoid potentially harmful "race to the bottom" competition with incentives between decentralised entities.

45. Among decentralised states across the world, different roles are assigned to central and sub-national agencies for the purpose of attracting investment, including foreign direct investment (FDI). In those countries that are highly decentralised, such as Belgium, Brazil and the United States, sub-national IPAs take a leading role in investment promotion while national IPAs have a less proactive role and mainly refer to their sub-national counterparts. In other countries, such as Canada, Germany, Malaysia and the United Kingdom, national IPAs continue to play a key role in investment promotion and have a strategic responsibility for co-ordination across sub-national initiatives.

46. In the MED region, a preliminary stocktaking suggests that, while in most of the economies subnational investment promotion agencies are in place, the division of responsibilities between these agencies and the national government is not always clearly defined (OECD Scoping Mission, December 2016-April 2017). Policymakers and IPA practitioners recognised the necessity for local economic actors (regional governments, IPAs, chambers of commerce, etc.) to enhance their promotion role in coordination with national agencies.

47. This preliminary stocktaking indicates that:

48. The ***Algerian IPA***, the Agence nationale de dévéloppement des investissements (ANDI), developed a network of 48 One-Stop-Shops (OSS) in each of the country's provinces, with the view to support the economic development of territories. These OSS are, *inter alia*, responsible for registering companies, and delivering building permits. The new investment law redefined recently the functions of ANDI, which will not be in charge anymore of delivering incentives and advantages to foreign investors.

49. The ***Egyptian IPA***, the General Authority for Investment and Free Zones (GAFI), has 5 regional OSS that cover the 27 governorates of the country. They provide services traditionally offered to investors. The establishment of these offices is a step towards investment promotion and facilitation decentralisation. To foster this process, it is planned to set up two new branches of OSS in Giza and Dakahlia (GAFI website). Nevertheless, evidence indicates that foreign investors prefer to register through the Cairo office, even if their investment is in another location (Hanafy, 2014).[6] The agency also has 14 branches in charge of welcoming investors and representing central authorities. It also regulates Egyptian Free Zones, Development Zones and Investment Zones.

[6] According to Hanafy (2014) most foreign investors prefer to register in Cairo (89% of registered companies in the period 2005–2010 were registered in Cairo, 5% in Alexandria, 3% in Ismalia, and 3% in Assiut).

50. In ***Israel***, Invest in Israel is attached to the Ministry of Economy, which has four branches dispersed in four districts around the country. Each of these offices has different roles and responsibilities. For instance, while the Jerusalem, Beersheba and Haifa are authorised to deliver licenses, the Tel Aviv office do not deliver such service.

51. The ***Libyan Privatization and Investment Board*** (PIB), created in 2009, has established in 2013 a single window service which delivers assistance to investors in terms of company registration, issuance of licenses, local partners' identification, granting resident permits, tax and financial incentives, etc. According to the PIB website, PIB has four regional offices around the country. Yet there is no information on the mandate and activities of these offices.

52. The ***Palestinian Investment Promotion Agency*** (PIPA) has regional branches. However, there is no available information regarding their localisation. The agency also has an internal Department which acts as a liaison office with regional authorities.

53. As in Egypt, the ***Jordan Investment Commission*** (JIC) is in charge of both investment promotion and facilitation and of supervising and regulating existing Development Zones and Free Zones. While the JIC headquarter are located in Amman, the agency does not have decentralised regional offices in Jordan.

54. Similarly, in ***Lebanon***, the Investment Development Authority of Lebanon (IDAL) offers a wide range of services, provided through a unique OSS that represents all public entities (public administrations, municipalities, etc.). However, IDAL does not have regional branches that provide similar services in the country.

55. A number of institutions in ***Morocco*** operate at the national and territorial level to attract investment. The Moroccan IPA, the Agence marocaine de développement des investissements (AMDI), is responsible for investment promotion and facilitation in the country. AMDI does not have decentralised offices. It cooperates with the Regional Investment Centres (CRI), which are under the authority of the Walis of the Regions and attached to the Ministry of Interior. Created in 2002, the CRIs respond to a clear policy of decentralised management of investment. There are currently 16 CRI spread over the 12 Moroccan regions, the Casablanca CRI being a pilot for the other regions. CRIs play mainly the role of an OSS which gathers services such delivering Intellectual Property licenses, tax services, company registration, but also have the mission to develop regional investment attractiveness. The National Business Climate Committee (Comité national de l'environnement des affaires – CNEA), a public-private platform that propose and monitor business climate reforms, has also recently created regional offices (CREA). Recently, the country embarked on an institutional transformation process to merge some existing institutions involved in investment promotion into one umbrella body.

56. In ***Tunisia***, foreign and domestic investors have been dealing with two separate institutions. The Tunisian *Agency for Industry and Innovation Promotion* (API), which reports to the Ministry of Industry, has established Regional Directorate offices in each of the 24 Tunisian governorates. These offices include one-stop-shops that offer services such as companies' registration and resident permits delivering. The *Foreign Investment Promotion Agency* (FIPA) is located within the Ministry of Investment and is in charge of delivering assistance to foreign investors. However, it has no sub-national offices. The new Tunisian investment redefines the institutional framework for investment and plans to streamline it, notably with the creation of a higher investment authority.

Decentralisation of investment promotion: International experiences

Brazil: Decentralised approach

57. Institutions responsible for FDI promotion in Brazil are APEX (Trade and Investment Promotion Agency), an agency oriented mainly towards exports promotion, RENAI (National Network of Investment Information), which works as an information vehicle about investment opportunities in the country, and SIPRI (Investment and Technology Transfer Promotion System for Companies). The official Brazilian agency to promote investment was created in 2001 as InvesteBrasil. It was a public-private agency, owned by the private sector (50%) and the government (50%), but it was closed down in 2004.

58. Thus, Brazil currently does not have a fully-fledged national IPA that articulates the entire mechanism of attracting investment – although APEX is partly fulfilling this role. Promotional efforts mainly emanate from states. Beside the national level, the network of investment promotion bodies in Brazil includes IPAs originating from state development banks (e.g. Agência de Fomento de Goiás; Agência de Fomento do Rio Grande do Norte), IPAs composed by government and private organisations (e.g. Pernambuco Economic Development Agency – AD Diper; Minas Gerais Industrial Development Institute), and private, non-profit organisations (e.g. Development Agency of Rio Grande do Sul – Pólo-RS). Some of the latter organisations are development institutions with investment promotion functions.

Malaysia: Co-ordinated approach

59. The Malaysian investment promotion agency (Malaysian Investment Development Authority – MIDA) is responsible for the promotion, co-ordination and facilitation of investments in the manufacturing and services sectors (except utilities and finance). It grants all FDI approvals and manufacturing licences. MIDA also leads the co-ordination of activities of sub-national investment promotion agencies. Malaysia's investment promotion framework also encompasses a number of agencies that undertake investment promotion at state-level.

60. The state of Penang for example has its own IPA, investPenang, which spun-off from the Penang Development Corporation's industrial office in 2004 to enhance investment promotion efforts at the state level. Its functions include enhancing Penang's business environment, administrating land for business purposes and supporting companies in their due diligence, as well as promoting SMEs in Penang where the agency promotes business linkages through match-making events and an elaborate database of suppliers for larger companies. The agency co-operates closely with MIDA as the federal IPA, particularly on incentives, which are under MIDA's sole responsibility. Examples of such co-operation include the attraction of big brand name electronics and medical device companies, which were able to benefit from Multimedia Super Corridor status for incentives. Investment promotion also occurs at the city level. Kuala Lumpur has its own IPA, InvestKL, mandated by the federal government to attract and service large MNEs in Greater Kuala Lumpur and Klang Valley.

Indonesia: Hybrid approach

61. Indonesia chose to allocate FDI attraction to the national IPA and domestic investment promotion to sub-national agencies. The division of labour stands as follows:

- The Indonesia Investment Co-ordinating Board – the national IPA – administers all foreign investment projects and those domestic investment projects with scope covering multiple provinces;

- Provincial governments administer domestic investment projects with scope covering multiple districts/cities; and

- District/city governments manage domestic investment projects with scope limited to one district/city.

The experience of Indonesia in decentralising investment facilitation measures is detailed below.

Improving the business environment at sub-national level

62. The impulse of sub-national levels of government can sometimes serve regulatory reform and investment climate improvements at the central level, as illustrated by the case of Mexico. Decentralisation can make several aspects of the political process more efficient and even lead to policy innovations in some regions, which other regions will later adopt.

Mexico: Unleashing regulatory reform at the state level

63. The regulatory reform initiative in Mexico was not a one-time initiative, but instead an effort that has strengthened with continued benchmarking in all 31 States and Mexico City to stimulate change and to support co-ordination with and within federal, state and municipal governments. Regulatory reform efforts started as early as the 1980s but it is only in 2000 that the Federal Commission for Regulatory Improvement was established. While this agency became the main driver of change, political obstacles limited its effectiveness and reforms failed to pass.

64. While states were benefitting from peer-learning and experience sharing during the entire reform process, competition between states was the biggest catalyst for reform. Faced with almost identical federal regulations, governors had difficulty explaining why it took longer or cost more to start a business in their state and were inspired by the reform efforts of other states. Consequently, Mexican states were improving their regulatory environments and the impulse for reform persisted even through changes in government. The pace of reform was maintained thanks in part to the regulatory reform units that had been created by states and that were receiving technical assistance from the federal government.

65. Delegating the reform agenda proved to be an essential part of the national reform effort. It fostered commitment, a sense of collaboration and better communication among federal, state and municipal authorities. Early on in the reform process, the federal government collaborated with the states to improve business registration through the creation of one-stop shops. After a few years of steady improvement at the state and municipal levels, the federal government saw a need for broad regulatory reforms at the federal level, a process which started in 2009.

Indonesia: Experience with decentralisation of regulations

66. Indonesia's administrative decentralisation accelerated following the initiation of its national decentralisation programme in 2001. Subnational levels of government (provincial, district and municipal) have been granted increased autonomy in policymaking that affect the trade and investment environment. Economic decentralisation in Indonesia has resulted in increased issuances of levy-related regulations by local governments, which actually harmed the investment climate. On the other hand, those sub-national

levels of government that proactively sought to attract investment obtained the necessary policymaking space to do so, in particular as concerns business facilitation measures. The cost of starting a business in Indonesia is still high and varies widely across districts/municipalities, and procedures for obtaining a business permit are also lengthy and complicated. Local authorities that have been successful in improving their area's business climate have focused on investment facilitation measures, in particular on simplifying procedures to obtain a business permit (e.g. Gorontalo, Luwu Utara and Pinrang).

Viet Nam: The importance of building capacities for effective decentralisation

67. Following the reforms initiated in 2005, Viet Nam decentralised some government functions and, as a consequence, provinces were formally empowered to determine their own investment climate. Teams were charged with facilitating FDI in each provincial Department of Planning and Investment and many provinces were able make significant changes in the rules and regulations governing business activities. With few adequate capacities, provinces embarked upon a process of learning by experimenting, with some provinces making the most of their new policy space by building up their governance capacities and learning from other provinces, and others lagging behind. Reform efforts varied a great deal among different provinces and investment climate improvements too.

68. Generally, delegating licensing to the provincial level contributed to swifter management of investment applications in Viet Nam. Experience has been mixed, however, with significant challenges remaining in the co-ordination of the different agencies, while aiming to be consistent with the national and provincial development plans. The delegation of managing procedures linked to investment was not accompanied by sufficient capacity building of local officials, hence hampering an effective decentralisation strategy. The central government also faced difficulties in monitoring investment flows in the overall territory as local provinces were inadequately reporting on investment figures. The government of Viet Nam has reportedly determined that decentralisation led to a degradation of overall planning and monitoring of environmental impacts from investment projects.

The Philippines: improving the investment climate at local level - the role of PEZA

69. The Philippines is divided into provinces and independent cities. Provinces are divided into component cities and municipalities, all being divided into barangays (the smallest administrative division in the Philippines). Independent cities, classified either as highly urbanised or independent component cities, are cities which are not under the jurisdiction of a province. All these local government units (LGUs) elect their own legislatures and executives, and are governed by the Local Government Code of 1991. The code stipulates that "the territorial and political subdivisions of the State shall enjoy genuine and meaningful local autonomy to enable them to attain their fullest development as self-reliant communities and make them more effective partners in the attainment of national goals".

70. LGUs still face significant challenges in effective investment promotion and facilitation. This is linked to the capacity within LGUs and their staff. To some degree, their autonomy can also contribute to co-ordination difficulties, especially in the implementation of national development objectives. In practice, this has resulted in a large share of investment going to special economic zones managed by the Philippines Economic Zones Authority (PEZA). The advantage of PEZA zones (backed by the Special Economic Zone Act) is that investors do not have to deal with LGUs for registration, land issues, and operations (including imports and exports).

The importance of effective co-ordination

71. The need to clearly delineate the division of labour among different levels of government as well as efficient co-ordination mechanisms is of prominent importance. This is true for both the decentralisation of investment policy making and the transfer of investment promotion activities.

72. Philippines Regional Development Councils: The government of the Philippines created a Regional Development Council (RDC) in almost each administrative region (13 in total). According to the 1986 Constitution, RDCs were created for the purpose of administrative decentralisation of the country to strengthen the autonomy of the local government units therein and, therefore, accelerate the economic and social growth and development of the units in the region. One of the RDCs' functions is to co-ordinate the monitoring and evaluation of development projects undertaken by government agencies, local government units, state colleges and universities, government-controlled corporations and special development authorities in the region. RDCs are the primary institutions that co-ordinate and set the direction of all socio-economic development efforts in the region. They also serve as a forum where local efforts can be related and integrated with national development objectives. This initiative is advisable in decentralised states to prevent conflicting regulations at different levels of government.

Nigeria: Risks and opportunities with co-ordination of investment promotion activities

73. In Nigeria, the 1999 Constitution provides the legal framework for federalism in Nigeria. The country has a three-tier system of government, composed of the federal government and State and local governments. Each level of government has its own legislative body and the role of both the Federal government and State governments in the implementation of laws through regulatory powers which are clearly defined in the Constitution, in laws and regulations. Both federal and state government have a legislative competence regarding investment related issues. The Constitution contains an Exclusive Legislative List of items that can only be legislated at Federal level, as well as a Concurrent Legislative List. State Assemblies are competent to make laws on any matter not included in the Exclusive List.

74. As part of its local investment attraction strategy, Lagos State government recently created an Investment Promotion Unit located within the Lagos State Ministry of Commerce and Industry. In parallel, the Nigerian Investment Promotion Commission (NIPC), the federal IPA, is about to establish a zonal office in Lagos – the headquarters being located in the federal capital Abuja. Against this background, Nigeria illustrates the need to clearly define the model of collaboration between national and sub-national IPAs with a clearly delineated division of labour and efficient co-ordination mechanisms. While the zonal office of NIPC is under the federal government, the Investment Promotion Unit is under the State government, and the two do not necessarily share the same development priorities. Each agency's role needs to be well-established and complementary, so as to provide investors with coherent messages and efficient services. NIPC's zonal office could, for example, mainly focus on co-ordination tasks between Lagos' Investment Promotion Unit, on the one hand, and NIPC's headquarter and other zonal offices, on the other hand. The federal agency needs to keep a national perspective for investment promotion with its zonal offices acting as focal points for effective co-ordination with States.

Embedding Special Economic Zones into wider investment and regional development strategies

75. SEZ investment promotion strategy should be embedded into wider development goals. Often, SEZs are conceived with the objective of spurring new investments, creating jobs and fostering economic opportunities in laggard regions. Therefore, SEZs have been at the cross-road of countries' investment and local development policies. However, while SEZs can contribute to development objectives, they are not a panacea (OECD, 2015). To maximise benefits, SEZs need to be equipped with an investment promotion strategy that is aligned with national and local economic development priorities and is coherent with national investment policy framework. International experience has shown that successful SEZs were firmly embedded in a wider development agenda, including strong connectivity to the rest of the economy and reduced barriers to investment, to be able to generate robust linkages with local firms (Moran, 2011). The policy framework of SEZs should also avoid creating an economic enclave with lower standards and norms. The framework should be applied with the same level of diligence as in the rest of the country on issues such as such as tax evasion, labour and environmental violations, and corruption (OECD, 2015). Table 2 provides a number of international good practices for SEZ policies.

76. Countries could rely on existing investment promotion structures that in some instances proved efficient in attracting investments. In Egypt for instance, regional policies to attract investment have encompassed the establishment of FZs, IZs, as well as regional one-stop-shop and representation of investment authorities in the governorates. Evidence reveals that the presence of well- operated FZs effectively contributed to bringing in FDI inflows to the Egyptian governorate (Hanafy, 2014). However, beyond the incentives or business facilities offered by SEZs, foreign investors target specific regions for other purposes, such as good infrastructure or agglomeration externalities. This is why it is crucial to incorporate SEZs into wider regional development strategies that entail not only the provision of various customs and other incentives to attract investors, but also entails a comprehensive reform programme to boost competitiveness and investment readiness of the entire region. This could include a revamping of the region's hard and soft infrastructure, upgrading SMEs capacity through local business support services, and strengthening the education system and upgrade the skills of the regional workforce.

Table 2. International good practice for SEZ policies

Foreign/local ownership	• No limitations • Equal treatment
Catering to the domestic market	• Liberalised • Criteria based • Subject to regular, non-zone, import regulations • Purchases from domestic market: companies eligible for exporter benefits since these should be treated as exports from domestic markets
Eligibility for benefits	• No minimum export requirements • Foreign and domestic companies • Private zone developers • Manufacturers and service providers
Private zone development	• Competition with government managed zones on a level playing-field • Developers eligible for full benefits • Clearly defined in legislation, include criteria
Labour and environmental policies	• Full consistency with international norms, including ILO standards and OECD Guidelines for MNEs • Compliance with national legislation • Monitoring office in the Zone
Enhancing GVC integration	• Training facilities for local staff and companies in the zones • Policies to develop clusters around the zones that cater companies in the zones

Source: *OECD (2016).*

77. Effective and institutionalised coordination mechanisms between the SEZ Authority responsible of investment promotion and central and local government is also an important aspect to be considered. Countries that have been successful in attracting and retaining investment have mastered a whole-of-government approach to investment promotion and facilitation (Moran, 2011). Effective co-ordination among various authorities with investment promotion mandates, including at SEZs levels, and implementing agencies (be they in charge of investment promotion, export and trade promotion, business registration, or land allocation) is a daunting task (OECD, 2015). Many economies have pushed through reforms to decentralise investment promotion and facilitation. Delegating some functions of IPAs to the sub-national level or to SEZs may contribute to swifter management of investment applications. However, these experiences have been mixed, with significant challenges remaining in the co-ordination of the different agencies, addressing the often weaker capacities at the provincial level, while aiming to ensure consistency with the national and sub-national development plans (ibid).

78. The creation of a one-stop-shop is considered to be the state-of-art for IPAs to facilitate investors' entry and operationalisation of activities when they are established (Moran, 2011). Compared to other investment locations, public information on SEZs and their hosting governorates is usually more available and visible to foreign investors, and also in the English language. This is likely to reduce the cost of obtaining information by foreign investors (He, 2002).Yet, while the term one-stop-shop implies that the IPA can provide authoritative commitments across a wide range of issues (land permits, immigration permits, tax packages, environmental permits, and other related business needs), evidence shows that most IPAs are affected with "territory" battles involving multiple Ministries, with the result being not "a one-stop-shop but a one-more-stop-shop" (Moran, pp. 37, 2011). International experience has shown that one promising approach for more effective OSS within SEZs is to host the staff from the relevant ministries whose duties are for instance to troubleshoot investor-ministry relations (Moran, 2011). For instance in Egypt, the Suez Canal Economic Zone Authority negotiated with line ministries and authorities on ad hoc protocols to streamline administrative processes thereby improving coordination mechanisms (OECD, forthcoming).

Bibliography

African Development Bank (2014), Industrial Policy at the Service of Balanced Territorial Development in Tunisia, AfDB Economic Brief, Tunis.

Copenhagen Economics (2006), Study on FDI and regional development, prepared for the European Commission, Directorate-General for Regional Policy, December 2006, Copenhagen.

Dunning, J. H., & S. M. Lundan (2008), Multinational enterprises and the global economy, Edward Elgar Publishing.

Ettoumi Y, S.Toufik, S. Koubaa & IE. Hadad (2016), Regional attractiveness for Foreign Direct Investments in developing countries: empirical review, *IOSR Journal of Business and Management*, 2016;18 (10) :74-78.

Faeth, I. (2009), Determinants of foreign direct investment–a tale of nine theoretical models, *Journal of Economic Surveys*, 23(1), 165-196.

Fu, X. (2008), Foreign direct investment, absorptive capacity and regional innovation capabilities: evidence from China. *Oxford Development Studies*, 36(1), 89-110.

Hanafy, S. (2014), Determinants of FDI location in Egypt: Empirical analysis using governorate panel data, No. 13-2015, Joint Discussion Paper Series in Economics.

Harding, T. and B.S. Javorcik (2007), "Developing Economies and International Investors: Do Investment Promotion Agencies Bring Them", World Bank Policy Research Working Paper, No. 4339, August.

He, C. (2002), Information costs, agglomeration economies and the location of foreign direct investment in China1, *Regional studies*, 36(9), 1029-1036.

Giroud A., and Botelho D. (2008), *Policies Promoting MNEs Linkages in Host Economies: A Comparison between Brazil and Malaysia*, Paper presented at the OECD Global Forum on International Investment, Paris;

Lessmann, C. (2013), foreign direct investment and regional inequality: A panel data analysis, *China Economic Review*, 24, 129-149.

Mariotti, S., Piscitello, L., and Elia, S. (2010), "Spatial agglomeration of multinational enterprises: The role of information externalities and knowledge spillovers." *Journal of Economic Geography* 10:519–538.

OECD (2008) *Private Sector Development in the Middle East and North Africa, Making Reforms Succeed, Moving Forward with the MENA Investment Policy Agenda*, Paris.

OECD (2010), *OECD Investment Policy Reviews: Indonesia*, Paris.

OECD (2013), *OECD Investment Policy Reviews: Malaysia*, Paris.

OECD (2014), *OECD Investment Policy Reviews: Myanmar*, Paris.

OECD (2015), *OECD Investment Policy Reviews: Nigeria*, Paris.

OECD (2016), *OECD Investment Policy Reviews: Philippines*, Paris.

OECD (2016), the productivity-inclusiveness nexus, Meeting of the OECD Council at Ministerial Level Paris, 1-2 June 2016, Paris.

OECD (forthcoming), “Tax incentives and resource mobilisation in ASEAN”, in ASEAN Investment Policy Review, OECD Publishing, Paris.

OECD (forthcoming), Supporting the development of the Suez Canal Economic Zone: A needs assessment, OECD publishing, Paris.

Oktaviani R., and Irawan T. (2009), *Does decentralization foster a good trade and investment climate? Early lessons from Indonesian decentralization*, ARTNeT Policy Brief No.20, Bangkok.

PwC (2017a) *Israel - Corporate tax credits and incentives*. [online] Taxsummaries.pwc.com. Available at: http://taxsummaries.pwc.com/ID/Israel-Corporate-Tax-credits-and-incentives [Accessed 6 Oct. 2017].

PwC (2017b) *Israeli budget reduces corporate tax rates, expands corporate tax incentives*. [ebook] PwC, p.2. Available at: http://www.pwc.com/us/en/tax-services/publications/insights/assets/pwc-israeli-budget-reduces-corporate-tax-rates.pdf [Accessed 6 Oct. 2017].

Schmitz, H., Dau Anh Tuan, Pham Thu Hang and McCulloch N. (2012), *Drivers of Economic Reform In Vietnam’s Provinces*.

World Bank (2006), Doing Business in Lebanon 2006, Beirut: UHY, p.22. Available at: https://www.ihk-krefeld.de/de/media/pdf/international/doing-business/libanon-doing-business-in-lebanon-2006.pdf [Accessed 6 Oct. 2017].

World Bank (2012), *Doing Business 2012: Doing Business in a More Transparent World*, Washington.

Annex: Preliminary stocktaking of Investment incentives in MED

Overview of tax incentives in Algeria

Instrument	Description
Standard corporate income tax (CIT) rate	19% for manufacturing activities, 23% for civil engineering and touristic activities, 26% for other activities.
Main government agencies involved in offering incentives	Ministry of Finance, National Investment Council (CNI), ANDI
Major incentive laws	Tax Code (2017), Investment Code (2016)
Qualifying firms for incentives	All companies, be they domestic or foreign, registered with ANDI and operating in sectors that are not mentioned within the country's Negative List, are eligible to incentives provided by the Investment Code. It may concern projects as creation, extension of production capacity or rehabilitation of activities that produce goods and/or services. One exception: investments exceeding 5 billion dinars, strategic investments of national interest and investments that enjoy a specific incentives regime (e.g. hydrocarbons). // However, the investment code creates 3 levels of incentives: 1. A common set of advantages. 2. Additional advantages to the privileged and/or jobs creating activities 3. Exceptional advantages to investments bringing a particular interest for the national economy.
Activities/sectors qualifying for incentives (not exhaustive)	Sectors that are not mentioned within the country's Negative List: tourism, industrial and agricultural activities, etc.
Regional incentives (including Special Economic Zones)	Tax incentives vary depending on whether projects are located in the North or in the South and within High lands. In particular, regulations provide further incentives to some cities outlined below.
Income tax holiday	Level 1 (granted to all investors): 3 years in the North. 10 years in the South and in the High Lands, where some areas are referred as "zones to be developed". Level 2: 5 additional years. Level 3: extension up to 10 years of incentives provided by level 1.
Income tax reduction	50% reduction on CIT during 5 years for companies established in the cities of Illizi, Tindouf, Adrar and Tamanghasset, which are located in the South.
Income tax deductions and credits (including loss carry forward and reinvestment allowance)	R&D expenses are completely. Carry forward losses are allowed up to the fourth fiscal year following the year of loss.
Accelerated depreciation	Accelerated depreciation can be used, depending on companies' sectors and the use of assets.
Trade tax and VAT exemptions/deductions	Exemption from customs duties and VAT on imported equipment during the project's creation period. // Hydrocarbon activities are exempted from customs duties and VAT during the creation period as well as the exploitation period. // VAT exemption for operations of goods sale, directed at the export, under some conditions.
Other incentives	Revenues coming from R&D activities are exempted from CIT, up to 10% of the taxable benefit or DZD 100 million. The exempted amount has to be reinvested in R&D activities. // Exemption from property transfer tax for acquired properties, from property tax on real estate (10 years), from advertisement and registration fees. // 50% deduction on the annual rental fee. // Deduction of 90% on the annual rental fee amount during the establishment period. // Exemption from Tax on Professional Activity (TAP). // Other benefits can be granted upon decision of the CNI.
Sources	Gide (2016), KPMG (2016), ANDI (2017); PWC (2017).

Overview of tax incentives in Egypt

Instrument	Description
Standard corporate income tax (CIT) rate	22.5%; Oil and gas sector: 40.55%.
Main government agencies involved in offering incentives	Cabinet of Ministers, GAFI.
Major incentive laws	Income Tax Law No. 91 of 2005 // Corporate Law No. 159/1981// Investment Law No. 72 of 2017 // SEZ Law No. 83 of 2002 // Law No. 14 of 2012 Concerning the Integrated Development of the Sinai Peninsula.
Qualifying firms for incentives	National or foreign companies operating in sectors opened to foreign investments according to the Investment Law.
Activities/sectors qualifying for incentives (not exhaustive)	Air transportation and related services. Animal, fish and poultry husbandry. Industry and mining. Land reclamation and cultivation of barren and desert lands. Maritime transportation. Refrigerated transportation for agricultural products and processed food. Tourism (including hotels, motels, tourist villages and transportation). Housing. Real estate development. Oil production and related services. Hospitals and medical centres that offer 10% of their services free of charge. Water pumping stations. Venture capital. Computer software production. Development of new urban zones. Software design and production of electronics. Establishment and management of technology zones. Credit classification. River transportation activities. Management of industrial projects and utilities. Waste collection and treatment projects. Projects financed by the Social Fund for Development.
Regional incentives (including Special Economic Zones)	Specific exemptions are granted by SEZ and Free Zones regimes: exemption on import duties and VAT. // The Investment Law distinguishes 2 geographic areas: Sector A: which includes locations which most urgently need development, in accordance with GAFI's Investment Map; Sector B: which includes the rest of the country.
Income tax holiday	10 years exemption for agriculture and animal production activities.
Income tax reduction	NA
Income tax deductions and credits (including loss carry forward and reinvestment allowance)	A company may carry losses forward for a period not to exceed 5 years. In addition, Investment Law provides 50% deduction off the investment costs in Sector as well as 30% deduction off the investment costs (up to 7 years) in Sector B (rest of the country), limited to specific sectors : labour-intensive projects, SMEs, tourisms, automotive, furniture, pharmaceutical industry, etc.
Accelerated depreciation	A company may have the possibility to deduct 30% accelerated depreciation from the value of the machines and equipment used in the first fiscal year..
Trade tax and VAT exemptions/deductions	Investment Law offers 5 years exemption from the stamp tax, fees of the notarization and publication. // Investment Projects with an industrial nature may import production supplies with no customs duties.
Other incentives	Contracts of registration of the lands are exempted from tax and fees. // The Cabinet of Ministers may issue a decree granting additional incentives such as a 50% refund of the value of the land allocated for industrial projects, allocate lands free of charge for some of the strategic activities, cover a part of the expenses of the technical training, etc.
Sources	GAFI (2017), Investment Law (2017) PWC (2017).

Overview of tax incentives in Israel

Instrument	Description
Standard corporate income tax (CIT) rate	24% 23% in 2018 and onwards
Main government agencies involved in offering incentives	Invest in Israel (Ministry of Economy), Israel Tax Authority.
Major incentive laws	Encouragement of Capital Investment Law No 5719-1959
Qualifying firms for incentives	To enjoy such incentives, domestic and foreign companies should obtain the "Priority Enterprise" or "Special Priority Enterprise" status.
Activities/sectors qualifying for incentives (not exhaustive)	All sectors are covered by these statuses.
Regional incentives (including Special Economic Zones)	Regional incentives are provided for projects established in the National Priority Regions, which includes, *inter alia*, the Neguev Desert and South Israel.
Income tax holiday	NA
Income tax reduction	Under the Priority Enterprise regime: • Companies established in National Priority Regions: 9% corporate tax rate. • Companies established in central Israel: 16% corporate tax rate. Eligibility: Exports amount to 25% of annual sales turnover. Under the Special Priority Enterprise: • Companies established in National Priority Regions: 5% corporate tax rate. • Companies established in central Israel: 8% Corporate tax rate.
Income tax deductions and credits (including loss carry forward and reinvestment allowance)	Clause 20A of the Israeli Income Tax Ordinance enables companies to deduct their R&D expenses in the year they were paid from their current income. The deduction is contingent on the Chief Scientist's confirmation that the expenses are indeed research and development expenses.
Accelerated depreciation	Accelerated Depreciation is provided to companies enjoying the Priority Enterprise status.
Trade tax and VAT exemptions/deductions	NA
Other incentives	Grants are accorded at up to 20% of the amount of investment in fixed assets, production equipment or facilities. For investments in the Negev area in south Israel, an addition of up to 10% may be applied. To be eligible, the company's facility must have export capabilities (25% of its sales derive from export), except for biotechnology and nanotechnology companies. The Israeli Government also offer an employment Grant Program.
Sources	Deloitte (2017), Invest in Israel (2017)

Overview of tax incentives in Jordan

Instrument	Description
Standard corporate income tax (CIT) rate	20% // Banking: 35%; Insurance, telecommunications, stockbrokers, finance companies, currency exchange companies and leasing companies: 24%; Industrial sector: 14%; the agriculture sector is exempt from tax.
Main government agencies involved in offering incentives	JIC, Income and Sales Tax Department (ISTD), Ministry of Energy and Mineral Resources (MEMR), Aqaba Special Economic Zone Authority (ASEZA)
Major incentive laws	Investment Law No 30/2014; Tax Law No. 28 for the year 2009
Qualifying firms for incentives	These incentives apply to domestic and foreign companies. Incentives vary depending on the location of the project, the sector, etc.
Activities/sectors qualifying for incentives (not exhaustive)	Agriculture and Livestock; Hospitals and specialized medical centres; Hotel and touristic facilities; Touristic entertainment and recreation cities; Contact and communication centres; Scientific research centres and medical laboratories; Technical and media production.
Regional incentives (including Special Economic Zones)	Jordan provides for specific tax regimes within Free Zones and Development Areas.
Income tax holiday	NA
Income tax reduction	CIT reduction by 50% for 10 years for economic activities (all sectors) established in designated least developed regions. // 5% CIT for firms in the Information and Communications Technology (ICT), 14% for industry and handicraft. // 5% CIT for any industrial, manufacturing, agricultural, touristic, commercial, crafts, or service activity registered in a Development Zone.
Income tax deductions and credits (including loss carry forward and reinvestment allowance)	Losses approved by the Income & Sales Tax Authority can be carried forward for up to 5 years.
Accelerated depreciation	NA
Trade tax and VAT exemptions/deductions	Jordan offers different trade tax incentives, including: a custom duty exemption for the import of certain goods by firms in the ICT sector. // Custom duty exemption on the goods required for certain economic activities outside the Free Zones and the Development Zones. // Zero-rate General Sales Tax (GST) for certain services provided by firms in the ICT sector. // Zero-rate General Sales Tax (GST) for renewable energy sources and energy conservation systems and equipment. // GST subject to 7% for the goods and services originated inside the Development Zones sold to the rest of Jordan. // GST exemption for certain imported or locally purchased goods by firms in the ICT sector.
Other incentives	Other incentives include a CIT exemption in the Free Zones on the profits originating from: the export of goods; transit trade; sale or waver of goods inside the Free Zones; provision and supplying of services inside the Free Zone. In addition, buildings and lands are exempted from tax. // In the Aqaba Special Economic Zone (ASEZ), the CIT is reduced to 5% . There is no tax on buildings, lands and capital gains. // Incomes derived from capital gains are generally exempted from taxation, except for capital gains on assets subject to depreciation. // Non tax incentives are also granted. In fact, the Jordan Enterprise Development Corporation (JEDCO) and the Jordan Innovation Center Network (JICN) allow domestic start-ups to benefit from incubators in Amman, Jerash, Irbid, Madaba, Karak and Tafila. Incubators provide business development and consulting services for Jordanian start-ups in these Governorates in few sectors. The JICN also provides grants that cover 80% of the costs for up to 15,000 JOD. // Finally, the Cabinet of Ministers can grant additional incentives.
Sources	Deloitte (2017), JIC (2017)

Overview of tax incentives in Lebanon

Instrument	Description
Standard corporate income tax (CIT) rate	15%
Main government agencies involved in offering incentives	Invest in Lebanon (IDAL)
Major incentive laws	Investment Law No.360
Qualifying firms for incentives	Lebanon provides incentives to national and foreign investors operating in promising sectors. The Government has designed 2 Investment Schemes: •The Package Deal Contract (PDC) scheme: catered for large scale projects which have a high impact on employment. •The Investment Project by Zone (IPZ) scheme: mostly catered for small and medium sized projects.
Activities/sectors qualifying for incentives (not exhaustive)	These schemes only concern 8 sectors: Agriculture, Agro Industry, Industry, Tourism, Information Technology, Technology and Telecommunication, and Media.
Regional incentives (including Special Economic Zones)	The Investment Project by Zone (IPZ) scheme provides specific tax incentives for projects established in the regions with the highest socio-economic challenges. There are 3 investment zones: A, B, C. Zone C is the most advantageous area in terms of incentives.
Income tax holiday	Tax holidays lengths vary depending the location of the project. Zone A: Full exemption from CIT for a 2 year period provided that at least 40% of the company's shares are listed on the Beirut Stock Exchange. // Zone B: Full exemption from CIT for 2 additional years provided that at least 40% of the company's shares are listed on the Beirut Stock Exchange. // Zone C: Full exemption from CIT and taxes on project dividends for a 10 year period
Income tax reduction	Zone B provide a 50% reduction on income taxes and taxes on project dividends, for a 5 year period.
Income tax deductions and credits (including loss carry forward and reinvestment allowance)	Industrial companies using profits to finance certain capital investments are exempt from up to 50% of their CIT liabilities for a period of up to 4 years, provided that such exemptions do not exceed the original investments made. In areas designated 'development zones', 75% of a company's tax liabilities may be exempt.
Accelerated depreciation	NA
Trade tax and VAT exemptions/deductions	NA
Other incentives	Other incentives include: a total exemption from project dividends taxes for a period that can run up to 10 years; a total exemption from Land Registration Fees; up to 50% Reduction on Work and Residence Permits Fees; up to 50% Reduction on Construction Permits Fees; 30% reduction on the taxable salary of foreign employees at offshore companies when working in Lebanon; an exemption from paying social security contributions for foreigners if they are working in Lebanon, pursuant to a contract concluded abroad with foreign enterprises and if they are covered by a similar benefit at home; an exemption from CIT for holding companies, offshore companies, education institutes, hospitals, cooperative associations, trade unions, local air and sea transport companies, and touristic establishments.
Sources	PWC (2017), IDAL (2017)

Overview of tax incentives in Libya

Instrument	Description
Standard corporate income tax (CIT) rate	20%
Main government agencies involved in offering incentives	Ministry of Finance, Libya Privatization & Investment Board
Major incentive laws	Law 9 of 2010 on Investment Promotion
Qualifying firms for incentives	Law 9 of 2010 applies to national, foreign, or joint venture capital jointly invested in the areas targeted by the Law.
Activities/sectors qualifying for incentives (not exhaustive)	Investment shall be in all production and service areas. The Executive Regulation of the Law on Investment Promotion shall determine the areas of production and services, which do not benefit from the following incentives, or which are restricted to Libyans only, or by way of partnership between Libyans and foreigners.
Regional incentives (including Special Economic Zones)	NA
Income tax holiday	The Law provide for a 5 years tax holiday for any activity. This period may be doubled if the project: •is established in a local development area; or •contributes to food security; or •uses installations and means conducive to saving energy or water; or •contributes to the protection of the environment.
Income tax reduction	NA
Income tax deductions and credits (including loss carry forward and reinvestment allowance)	Industrial companies using profits to finance certain capital investments are exempt from up to 50% of their CIT liabilities for a period of up to 4 years, provided that such exemptions do not exceed the original investments made. In areas designated ‘development zones’, 75% of a company’s tax liabilities may be exempt.
Accelerated depreciation	NA
Trade tax and VAT exemptions/deductions	Libya provide for an exemption from customs duties, import fees, service charges and other fees and taxes of a similar nature on the importation of machinery, equipment. It also exempt commodities, produced for export, from production tax, customs duties and such charges imposed on exports.
Other incentives	Other incentives include: an exemption of the returns of shares and equities arising from the distribution of the investment project’s interests; an exemption from interest arising from the project’s activity if re-invested; an exemption from all documentary records, registers, transactions, agreements that are made, ratified, signed or used by the investment project, from the stamp duty. Other incentives can be granted by virtue of a decision from the General People’s Committee, under a proposal from the Secretary.
Sources	KPMG (2016)

Overview of tax incentives in Morocco

Instrument	Description
Standard corporate income tax (CIT) rate	Before January 2016: 30% // After: different CIT tax rates depending on companies net incomes: Below or equal to 300,000 DH: 10% 300,001 to 1,000,000: 20% 1,000,001 to 5,000,000: 30% 5,000,001 and above: 31% Rate applicable to leasing companies and credit institutions: 37% The current system should be soon replaced by a progressive tax system through the Finance Law for 2018 (Prime Minister).
Main government agencies involved in offering incentives	Ministry of Economy and Finance, AMDIE
Major incentive laws	General Tax Code (CGI), Finance Law for 1998, Finance Law for 2015, Investment Charter (1995)
Qualifying firms for incentives	Incentives apply without distinction to domestic and national companies. To enjoy some incentives, companies have to inter into an investment agreement with the Government.
Activities/sectors qualifying for incentives (not exhaustive)	Incentives tend to promote, in particular, export activities as well as sectors including finance, agriculture, tourism and education.
Regional incentives (including Special Economic Zones)	Projects carried out within provinces covered by Decree n°2-08-132 of May 28th 2009 may benefit from tax incentives. This provision concern developing region including Oriental and South Provinces. Tax incentives are also granted to companies operating in Export Free Zones.
Income tax holiday	Tax holidays are provided depending on companies' activities and location: 4 years for companies running authorised accounting management centres ; 5 years for companies exporting goods and services, operating in the hotel industry, having business activities within Export Free Zones, export companies established under the Casablanca Finance City (CFC) status, and industrial companies carrying out activities fixed by specific regulations. 10 years for companies holding concessions of hydrocarbon deposits.
Income tax reduction	Under the CFC status, companies with international headquarters located in Morocco benefit from a reduced CIT rate of 10%. Under this status, profits relating to export turnovers are subject to a 8.75% after tax holidays have lapsed. Companies exporting or operating in the hotel industry are subject to a reduce rate of 17,5% after the tax holidays have lapsed. Companies located in Export Free Zones benefit from a 8,75% during 20 years following the end of the tax holidays. Craft enterprises, private schools, sport companies, land developers and farms enjoy a 5 years income tax reduction at a 17,5% rate. Finally, there is a 3 years income tax reduction for new public companies at a rate of 25% or 50%.
Income tax deductions and credits (including loss carry forward and reinvestment allowance)	Tax losses may be carried forward for 4 years from the end of the loss-making accounting period.
Accelerated depreciation	NA
Trade tax and VAT exemptions/deductions	Exemption from import duties and the VAT applicable to goods, materials and tools needed for companies' project and imported directly by companies or a third person during 36 months following the start of the business.
Other incentives	Permanent CIT exemption: - on farm incomes for agriculture companies with less than 5,000,000 MAD turnover; - on incomes that come from the rent of business buildings by Real estate collective investment schemes (OPCIs). The Government participates up to 20% in the expenses (i.e. external infrastructure expenses, land acquisition, vocational training) for strategic and structuring companies.
Sources	KPMG (2016); PWC (2017); AMDIE (2017).

Overview of tax incentives in the Palestinian Authority

Instrument	Description
Standard corporate income tax (CIT) rate	15% // 0%: Agriculture // 20%: telecommunication companies and pure monopolistic companies // Life insurance: 5%.
Main government agencies involved in offering incentives	Palestinian Investment Promotion Agency (PIPA), Palestinian Industrial Estate and Free Zone Authority (PIEFZA)
Major incentive laws	Law on the Encouragement of Investment in Palestine Law No. (28) of 1998
Qualifying firms for incentives	The Law apply to domestic and foreign companies. Incentives vary depending on the location of the project and the type of sector.
Activities/sectors qualifying for incentives (not exhaustive)	Covered sectors include infrastructure, energy, transportation, and communications, etc.
Regional incentives (including Special Economic Zones)	Palestine has developed Special economic zones that provide tax reduction on a case by case basis.
Income tax holiday	Tax holidays are granted to industrial and tourism projects. It consists in a grace period of a maximum of 4 years or until the activity generates profit.
Income tax reduction	Industrial and tourism projects enjoy a 5% CIT rate up to 5 years while other projects enjoy a rate reduced to 10% during 3 years.
Income tax deductions and credits (including loss carry forward and reinvestment allowance)	NA
Accelerated depreciation	NA
Trade tax and VAT exemptions/deductions	Exemptions from VAT are given to projects supported by the Palestinian Authority such as investments in financial institutions, preschool education, research and development projects, transportation projects, infrastructure projects, and food processing projects. // Moreover, there is no VAT on exports and fixed assets are exempt from customs duties. // Finally, spare part imported by the enterprise shall be exempt from customs duties provided that their value does not exceed (15%) of the fixed assets.
Other incentives	NA
Sources	PIPA (2017), PIEFZA (2017)

Overview of tax incentives in Tunisia

Instrument	Description
Standard corporate income tax (CIT) rate	25% // 35%for financial institution, insurance, investment companies, oil and gas sectors.
Main government agencies involved in offering incentives	Ministry of Finance, FIPA-TUNISIA
Major incentive laws	Tax Code (2017), Investment Law (2016), Law n°2017-8 of 14/02/2017 on Tax Incentives, Decree n° 2017-389 of 09/03/2017 on Financial Incentives.
Qualifying firms for incentives	National and foreign companies operating in sectors that are not mentioned in the country's Negative List.
Activities/sectors qualifying for incentives (not exhaustive)	Permitted sectors include agriculture, clean technologies, fishing, etc.
Regional incentives (including Special Economic Zones)	The Tunisian system distinguishes two types of "regional development zones" (ZDR) that benefit from two different tax regimes: regional development zones of the first group and a regional development zones of the second group.
Income tax holiday	Tunisia offer 10 years income tax holidays for companies located in regional development zones. It also provides 10 years in the agricultural sector.
Income tax reduction	The Tunisian system provides a CIT rate reduced to 10% for totally exporting companies.
Income tax deductions and credits (including loss carry forward and reinvestment allowance)	There is a tax relief on reinvested profits limited to 35% of the profits subject to tax. Agricultural projects are fully exempted on reinvested profits.
Accelerated depreciation	NA
Trade tax and VAT exemptions/deductions	The system provides a total exemption from VAT and customs duties on inputs to products to be re-exported.
Other incentives	Other incentives mainly concern non tax incentives. In fact, specific investment subsidies are granted to projects located in regional development zones, covering up to 30% of investment cost capped at 3 MTND. Subsidies are also granted to some priority sectors. Such grants also tend to cover companies' R&D expenditures. The Tunisian system also offer grant to cover employers' contribution to mandatory schemes as well as expenses related to training programs leading to certification. Subsidies may also be provided to cover infrastructure costs in industrial businesses, capped at 10% of the project cost. Grants are also allocated to protect the environment: it consist in a subsidy of 50% of the value of the investment content, capped to 300 thousand dinars.
Sources	FIPA-Tunisia (2017), Ministry of Finance (2017)