

**Approaches to Urban Land Development: From Brownfield
Redevelopment to Industrial Competitiveness**

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**Access to Industrial Land in the Middle East and
North Africa Region:
Key Challenges and Opportunities**

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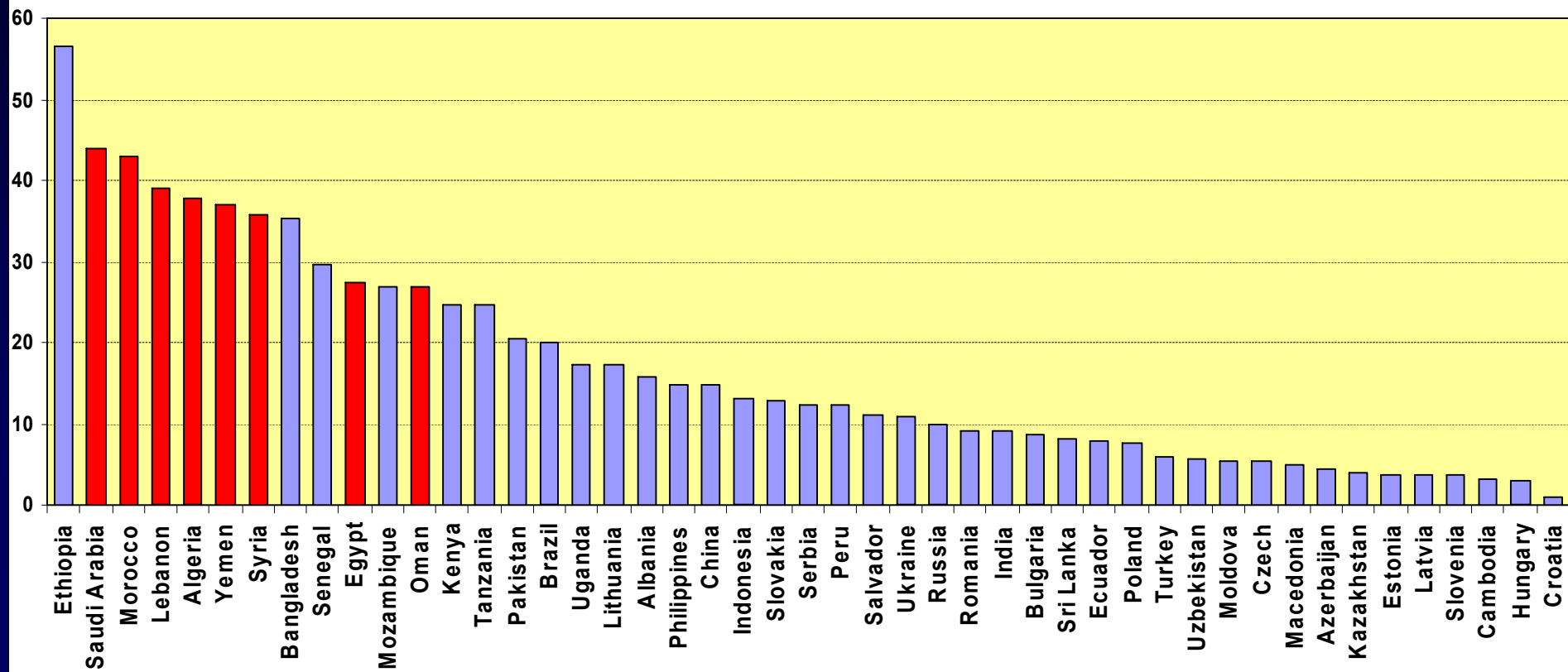
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- Yemen Port Cities Development Program
- Tunisia Competitiveness Poles



Access to industrial land is a major constraint to doing business in MENA

% of firms rating access to land as major or severe constraint



Source: The World Bank, ICA surveys (several years 2001-2007)



Access to Industrial land in MENA: recent AAA and operational work

- **Job creation is top regional priority in MENA → Emphasis on LED & competitiveness, including land asset management**
- **Case studies:**
 - **Egypt—Access to industrial land ESW (ICA 2005), Public land management strategy ESW (2006), Model industrial estate program (joint FIAS and World Bank AGPP, 2006)**
 - **Tunisia—Access to industrial land and management of industrial zones ESW (SME ESW, 2007), project in pipeline**
 - **Morocco—Access to industrial land ESW (Land for Growth ESW, 2007)**
 - **Yemen—Model industrial estates and economic zones program (PCDP project, underway)**
 - **West Bank Gaza—Gaza industrial estate (project, closed)**
 - **Jordan—Aqaba special economic zone (AAA, completed)**



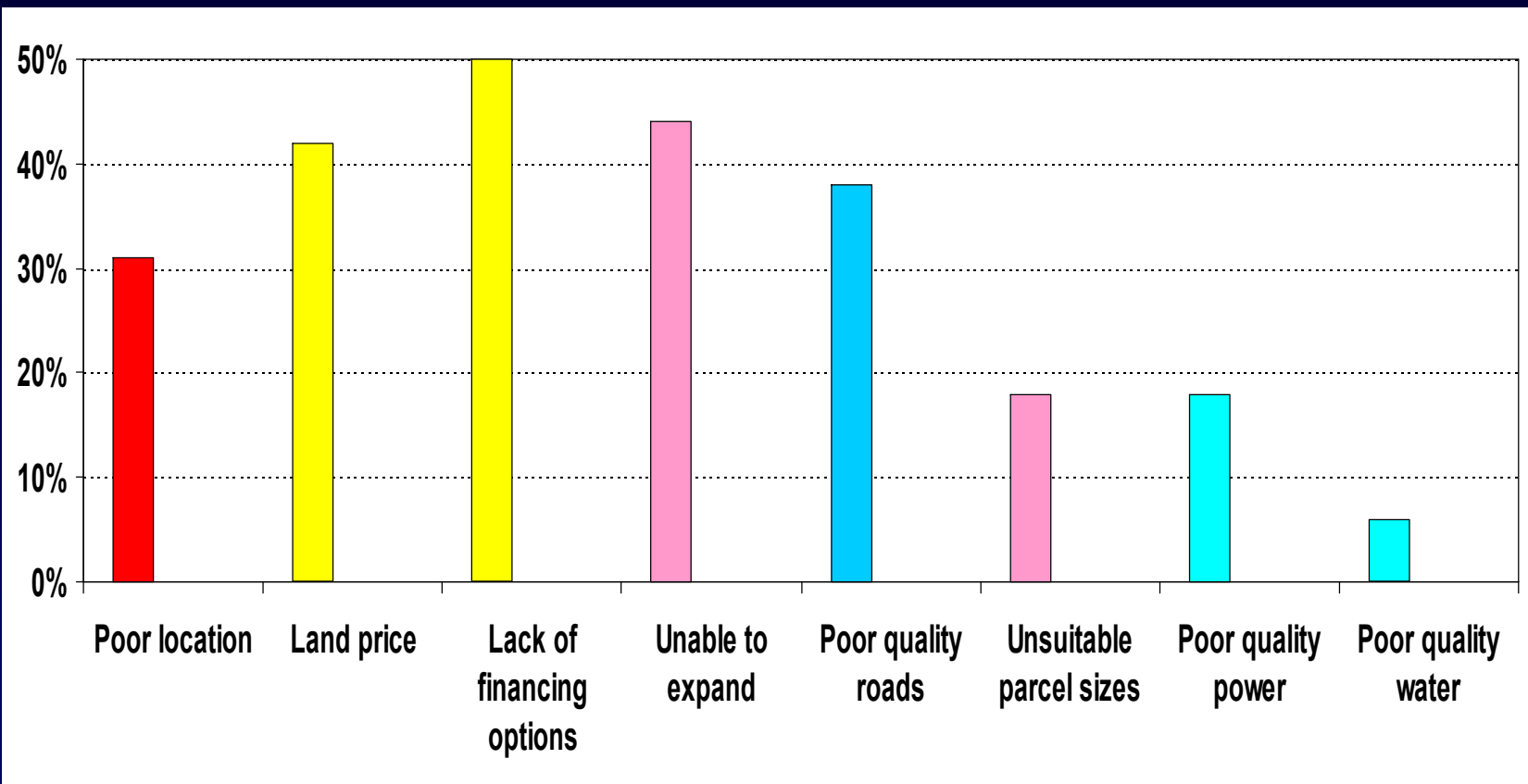
Why is access to industrial land a problem in MENA?

- **Investors complaining of access to industrial land often mean different things... and not always a scarcity issue**
 - **Yemen: 11 public IZ designated but none serviced; 50% of all investments licensed in Aden since 1992 did not materialize due to land problems**
 - **Egypt: 55-60% of land in public IZ allocated, yet some 5,000 ha, mostly serviced, are available for distribution**
 - **Morocco: 87% of land in public IZ allocated, yet over 500 ha available (~7 years of demand)**
 - **Tunisia: 69% of land in IZ developed by Agence Fonciere Industrielle allocated, over 550 ha available (~10 years of average annual sales)**
- **The problem is often a mismatch of supply and demand**
 - **Inadequate location (vs. labor markets, transport infrastructure)**
 - **Unsuitable sites (inadequate parcel sizes, inflexible subdivision plans, inability to expand)**
 - **Poor quality unreliable infrastructure and access roads**
 - **Inadequate zone management and maintenance**
 - **Unaffordable cost of land acquisition (lack of financing options)**



Why is access to industrial land a problem in MENA? Insights from Morocco

A survey of firms that acquired industrial land in past 3 years indicates which aspects are the main obstacle(s)



Inefficient land markets in MENA: Demand-side issues

- **Inefficient, segmented land markets along**
 - Location (urban vs. rural)
 - Tenure (formal vs. informal, own vs. rent)
 - Land use (industrial, tourism, etc)
 - Land controlling & regulatory institutions
- **Demand side distortions (ownership vs. rental)**
 - Industrial land ownership: >80% Egypt & Syria, >60% Lebanon, WBG & Algeria, >50% Jordan & KSA. Only Yemen (48%), Morocco (47%) & Oman (37%) have more leasehold
 - High upfront cost in non-core business, high transaction cost to expand
 - So why do MENA firms prefer to own land?
 - Collateral to access finance (Lebanon, Egypt, Morocco)
 - Land value appreciation as “exit strategy”



Inefficient land markets in MENA: Supply-side issues

- **Inadequate supply of public land for investment**
 - Much land available for investment in MENA countries is publicly-owned (desert land Egypt & Yemen, Morocco, etc) or acquired by Government for allocation (Tunisia, Iran, etc)
 - Supply of public land for investment greatly lags behind demand (e.g. Iran)
 - In few cases (e.g. Yemen port cities), massive distribution of public land relative to demand and at subsidized prices attracting speculators, led to depletion of adequately-located stock
- **Inadequate access to privately-owned land**
 - Land use planning rigidities & property rights problems constraint access to privately-owned land
 - Ad-hoc co-location of industries in informal industrial zones (e.g. Egypt, Morocco) or in mixed use zones (e.g. Aden)
 - Some large private groups co-locate industries in own private zone with shared services (e.g. Yemen's Hodeidah, Taiz)



Pictures Merghem, Hodeidah, Aden, etc



Inefficient land markets in MENA: Supply-side issues

- **Planning & Implementation issues**
 - Outdated land use plans (e.g. Sana'a) & urban development boundaries (e.g. Egypt's cordons)
 - High planning & infrastructure standards (rights-of-ways, service land reserves) → inefficient land utilization (25-50% in Morocco & Egypt) & sprawl, with implications on cost of service delivery
 - Regional development policy of lagging regions contradicts with economic competitiveness logic (e.g. Tunisia, Morocco, Egypt)
- **Regulation issues**
 - Cumbersome land subdivision procedures (1.5-4 years Morocco)
 - Cumbersome building permit procedures (3-6 months Egypt)
- **Enforcement issues**
 - Poor enforcement of plans (e.g. Yemen, Egypt, etc)
 - Prevalence of informal conversion of agricultural land to economic activities (e.g. Egypt, Morocco, etc)



Inefficient land markets in MENA: Supply-side issues

- **Zone development and management issues**
 - **Publicly developed IZ & private zone development non-existent or at early stages (e.g. Egypt, Tunisia)**
 - **Infrastructure quality issues and poor maintenance of IZ**
 - **Inadequate infrastructure & services (no fencing & security, poor environmental standards, poor quality access roads & power)**
 - **Public zone development agencies have limited O&M budgets (e.g. Egypt, Morocco) → necessitates major investments in zone rehabilitation programs**
 - **Tenant association model in Tunisia has strong points but faces many challenges (50% of zones have operational associations)**
 - **Private participation in zone development/management faces many challenges**
 - **No or weak regulatory framework (e.g. Egypt, Yemen, Morocco)**
 - **Lack of level playing field with public zone developers (e.g. Tunisia AFI, Morocco Hassan II Fund)**



Pictures Merghem, Hodeidah, etc



Inefficient land markets in MENA: Pricing issues

- **Industrial land distributed at highly-subsidized prices**
 - In high-demand areas, below-market prices as incentive to attract investment (e.g. Egypt below infrastructure cost recovery level, Tunisia, at cost recovery level)
 - In low-demand regional development zones, very steep subsidies (Tunisia 50-75%) & sometimes for free (Egypt)
 - Yemen, free unserviced land for investment projects >\$10m
 - **Prevalence of speculation**
 - Low ratio of allocated industrial land that has been developed (Morocco 36%, Egypt 31%)
 - No provision for subsidy clawback & limited enforcement of repossessing undeveloped land after maximum contractual term (e.g. Egypt, Morocco, Tunisia)



Industrial land sale prices in several MNA countries

	High demand (main cities)	Medium demand (secondary cities)	Low demand (regional dev't zones)
TUNISIA			
Sale price AFI public IZ (\$/m2)	34.3	19.0	3.8
Sale price Enfidha private IZ (\$/m2)		39.0	
Lease rate free zones (\$/m2/year)	3.9	3.1	
Lease rate technopoles (\$/m2/year)	3.8	3.8	
EGYPT			
Sale price New Town public IZ (\$/m2)	16.6	12.3	0.0
Lease rate free zones (\$/m2/year)	3.5	1.8	
MOROCCO			
Sale price IZ (\$/m2)	41.0	17.6	5.9
Hassan II fund subsidy 100% option/ceiling	11.7	0.0	0.0
Lease rate Tangier free zone (\$/m2/year)	30.0		
Lease rate IZ (\$/m2/year)	7.0	3.8	1.2
UNITED ARAB EMIRATES			
Lease rate Ras Khaima free zone (\$/m2/year)		4.0	
YEMEN			
Lease rate Aden Free Zone (\$/m2/year)	2.0		

Source: World Bank, several studies 2006 & 2007



Pictures Merghem, Hodeidah, etc

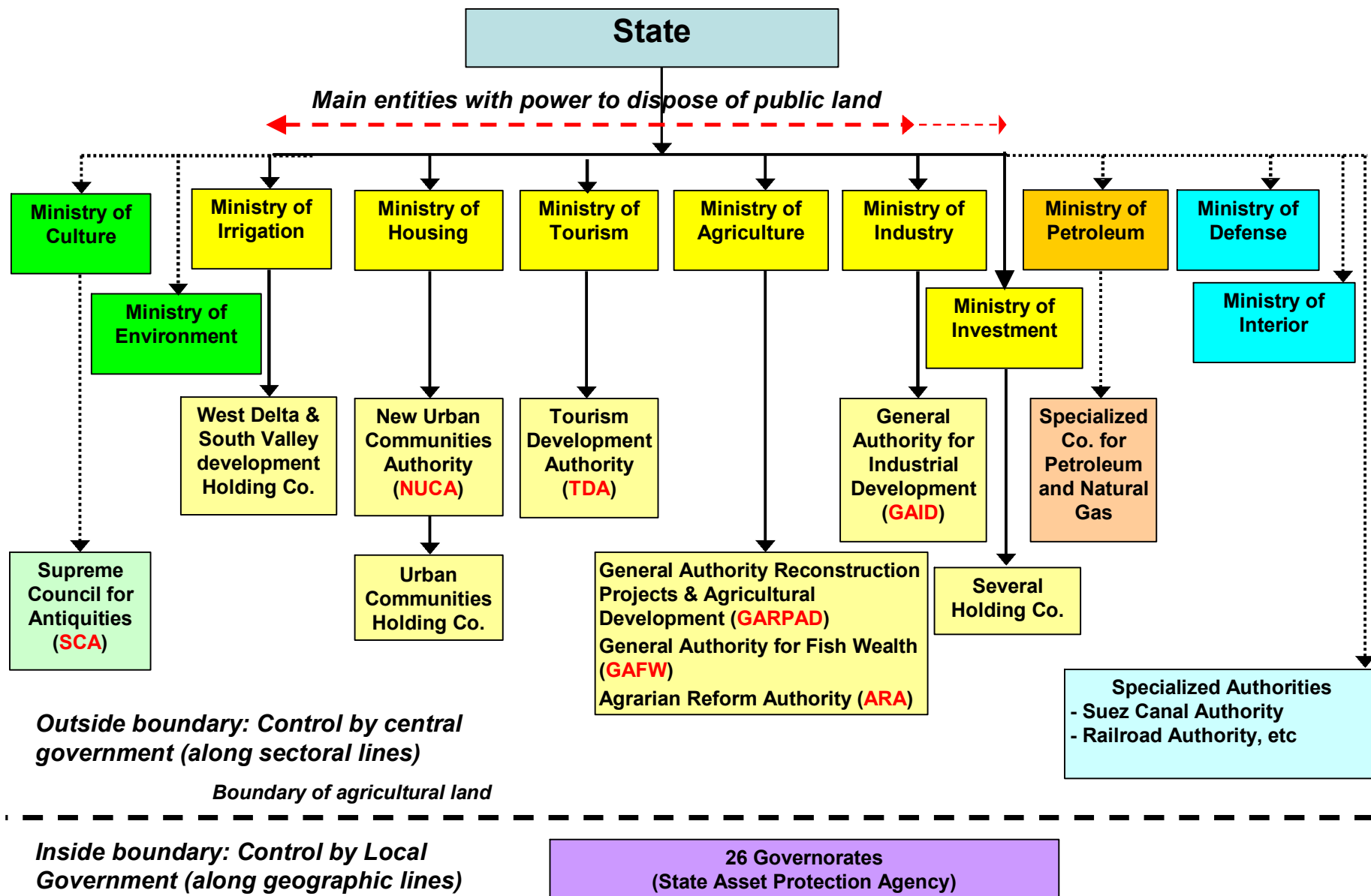


Government as landowner: Inefficient public land asset management

- **Extent of publicly-controlled land is a unique MENA feature**
- **Lack of updated land information & classification systems & comprehensive/consolidated public land inventories (e.g. Egypt, Morocco, Yemen)**
- **Complex institutional set up for public land management & unclear mandate central vs. local government mandate (e.g. Egypt, Yemen)**
- **Free good approach to public land assets**
 - **Governments sell or lease public land at below-market prices & often below cost recovery level (first-come-first-serve, sole source), limited use of market instruments (auctions, RFP)**
 - **Lack of systematic & transparent public land valuation**
 - **Distribution of public land with little consideration to economic, fiscal & environmental sustainability**
- **Lack of land policy & strategy to leveraging public land**



Complex institutional landscape governing control over public land in Egypt

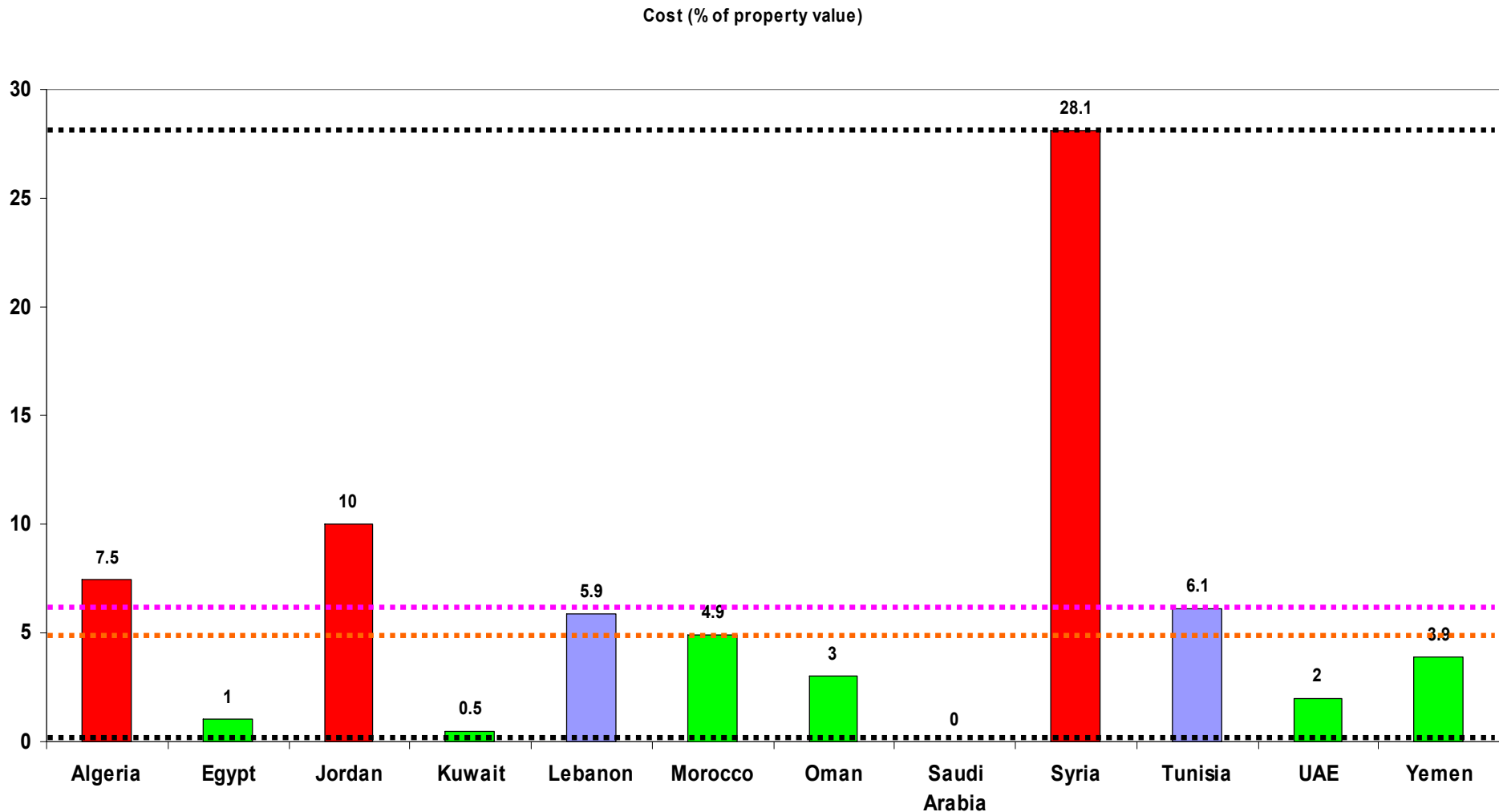


Government as regulator of land markets: Limited land registration & weak property rights

- **Limited registration of property rights & transactions → Vast real estate wealth is “dead capital”**
 - Title system well-functioning, good coverage & up-to-date (Jordan ~95%, Lebanon ~75%)
 - Title system rigid & limited coverage (Tunisia, Morocco)
 - Deed systems problematic & low coverage (Egypt, Yemen)
- **Co-existing modern & traditional property right regimes**
- **Land registration complex, time-consuming & costly**
- **Proxies to registration perceived to confer similar security at less cost (e.g. Morocco, Yemen, Egypt, Kuwait)**
- **Leases not mortgageable because of legal and/or operational issues (e.g. Lebanon, Kuwait, Egypt, Morocco)**
- **Land & property disputes volume clogs courts (Yemen 50%)**



Large variations in the cost of registering property

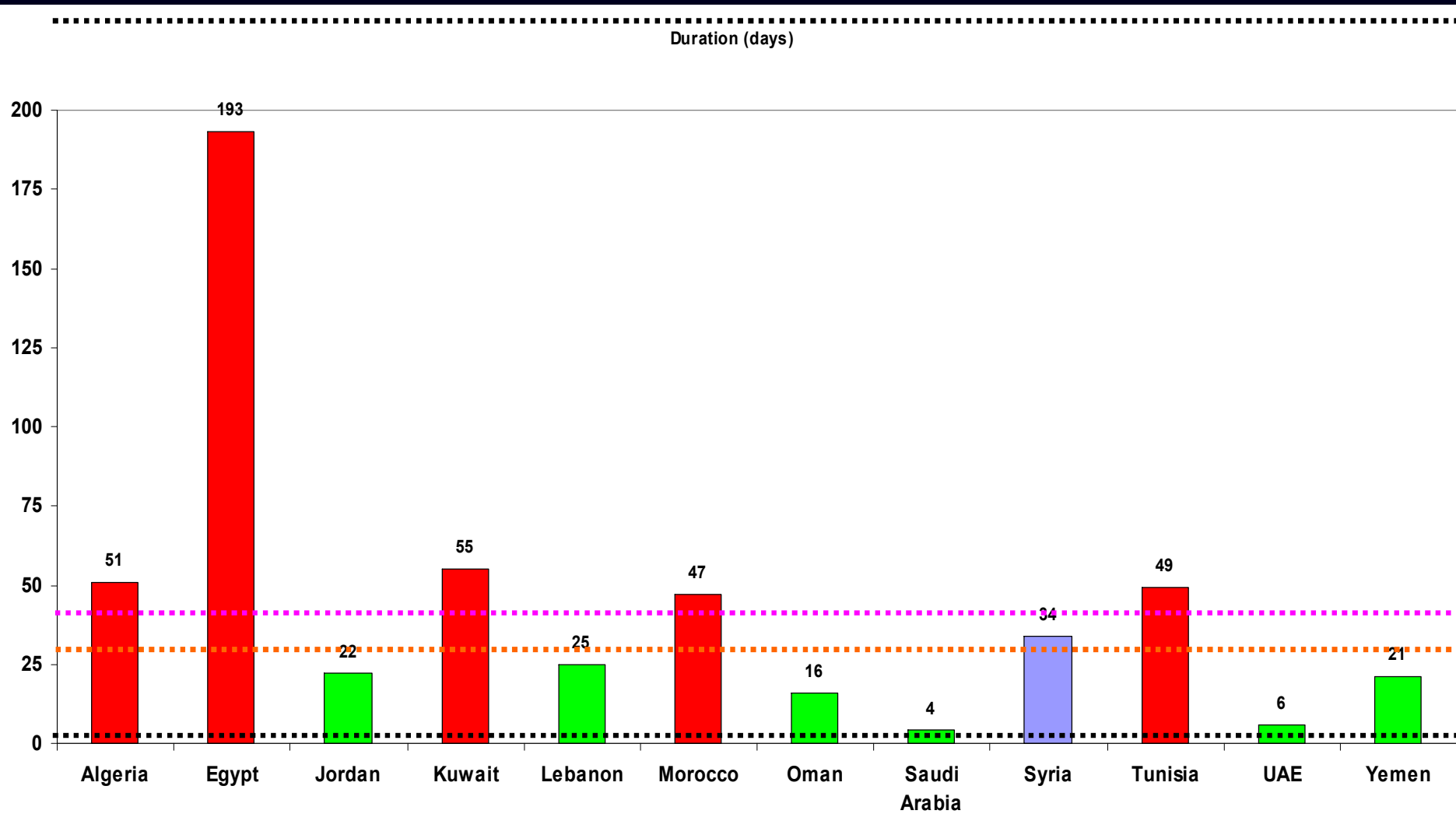


OECD average 4.6% vs. MENA average 6.1%

Source: The World Bank, Doing Business 2008



Large variations in time to register property



OECD average 28 days vs. MENA average 43 days

Source: The World Bank, Doing Business 2008



Selective Government Interventions: Special Economic Zones & Enclaves, a Panacea?

- **Many Governments launched Special Zone Programs as a solution to “access to land” constraint to doing business**
 - **Tunisia: IZ, Free Zones, Technopoles, Competitiveness Poles**
 - **Egypt: inland IZ, new town IZ, Free Zones, Special Economic Zones, Technology Parks**
 - **Morocco: IZ, Free Zones, Technopoles, etc**
 - **KSA: IZ, Special city zones, new economic cities, SEZ?**
- **Distinguishing features of special zones**
 - **Streamlined access to industrial land, quality infrastructure & services**
 - **Administrative simplification: Single interlocutor, OSS**
 - **Differentiated fiscal and non-fiscal incentives**
- **Enclave solution to test investment climate reforms before scaling up, but the latter often does not take place**



Pictures



Comprehensive Government Interventions: Land sector reforms

The bright side: Several MENA countries are launching land sector reforms

- **Tunisia**—Tackled zone maintenance problem through tenant association legislation; is expanding private sector participation in zone development in high-demand areas to 50%; introduced “Competitiveness Poles” (privately-developed specialized IZ with cluster development & linkages to R&D and training)
- **Morocco**—Reforming urbanism code & land registration legislation
- **Egypt**—Reforming land registration (reduced cost, increasing automation); introduced market-based mechanisms to dispose of land for real estate investment (auctions, sealed bids)
- **Yemen**—Initiated land registration reform (new modern law prepared & in Parliament review), restructured governance of land authority, set up holding company to control public land in joint venture development projects



The Way Forward (1)

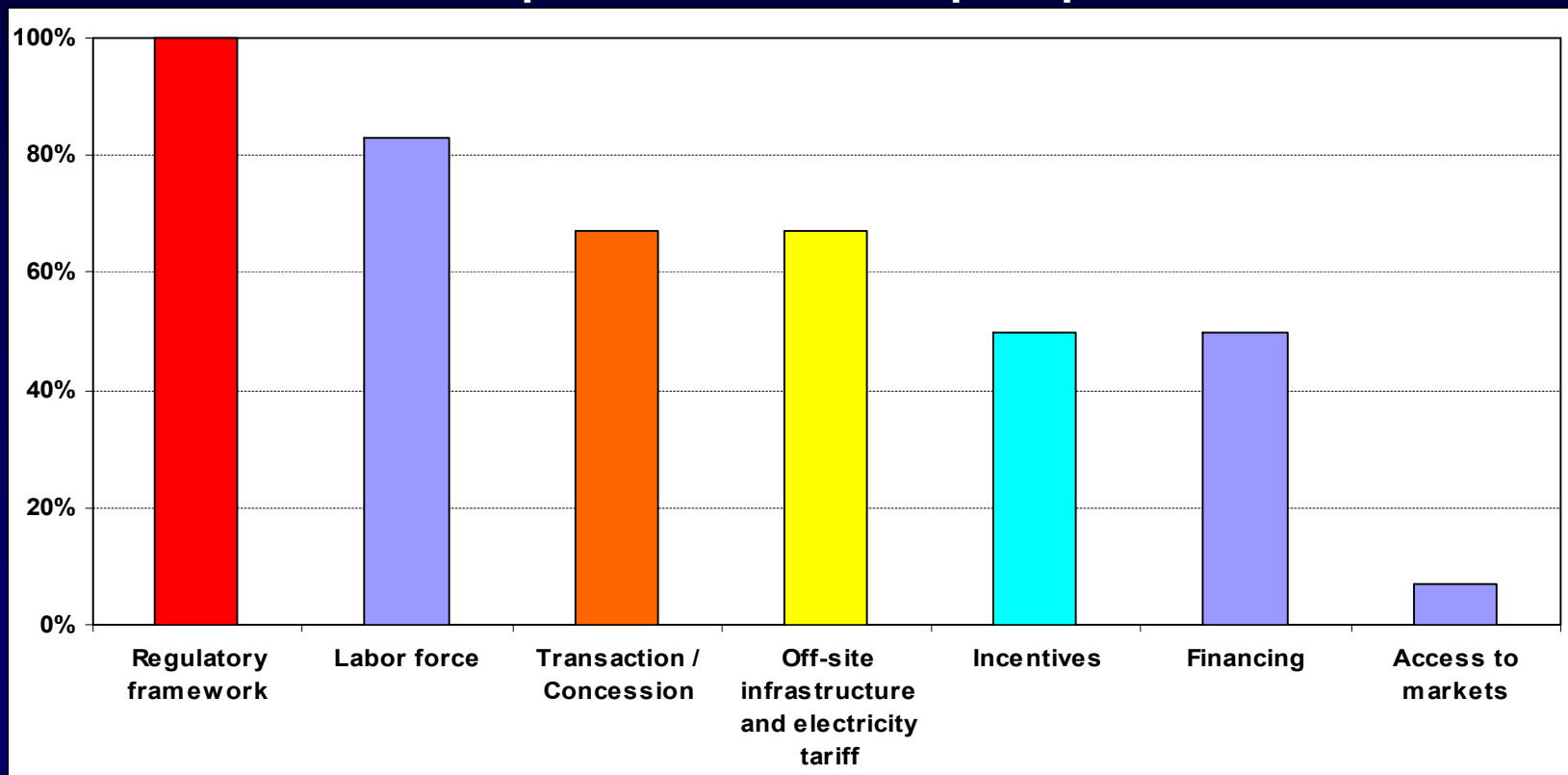
- **Strengthen Government's public land management function**
 - Formulation of public land management policy
 - Recognition of the cost of fixed asset ownership and use
 - Land information systems
 - Accountability mechanisms and incentives structures
 - Decentralization of management responsibilities, combined with strengthening central government regulatory role
 - Transparent market-based public land allocation to the private sector (firms do not perceive subsidized industrial land price as an important locating incentive)
- **Strengthen Government's land market support function**
 - Improve registration systems (lower fees, service quality, one roof)
 - Strengthen land use planning as more demand-responsive



The Way Forward (2)

- **Attract private sector to develop, manage and operate industrial zones**

What are private zone developers priorities?



Source: Industrial Development Authority Regional workshop for IZ development, Egypt 2006



How to translate the industrial land sector work into operations?



Yemen Port Cities Development Program: Industrial Estates/Economic Zones Program

- **Large consultancy underway with objective to:**
 - **Reform regulatory & institutional framework governing economic zone development & management (trigger to advance to Phase II)**
 - **Policy discussions advanced; key policy makers agree to harmonize various types of zones under a new SEZ law, unify & strengthen central government regulatory function with involvement of local governments in implementation, & rely on private sector development/management of zones**
 - **Study of demand for industrial land in Aden & Hodeidah—completed**
 - **Updating Aden Free Zone Master Plan & harmonization with Aden City Master Plan—completed**
 - **Feasibility studies for pilot economic zone with Aden Free Zone & pilot industrial zone in Hodeidah, including PPP models & market testing with private zone developers—completed, except market testing**
 - **Detailed designs & tender documents of off-site/on-site infrastructure improvements—underway**



Work in progress in Tunisia (1)

- **We are developing a piece of sector work dealing with competitiveness poles (CP)**
- **CPs have been created recently in Tunisia to increase PSP in the development of industrial land and to ensure a high degree of research and cutting edge technology in industrial production**
- **CPs combine the functions of technopoles (research and development areas) with those of industrial zones (actual production)**
- **CPs are managed by private societies or public-private partnerships (high participation of commercial banks)**



The 4 CPs

- There are 4 CPs so far: Bizerte for agroindustry, Monastir for textile, Sousse and Gafsa for various industries



Work in progress in Tunisia (2)

Main issues in CPs (to be covered under ESW):

- **Financing of various in-site and off-site infrastructure, equipment, and services....who should finance what?**
- **Collaborative projects to ensure interaction of all elements of the system: who is to finance and lead them?**
- **Governance of CPs: several actors including the Ministry of Industry, entrepreneurs, Ministries of specific sectors, Governorates, Municipalities, Academia. Who should do what?**
- **Legislation: is a new law required for CPs or can the existing laws be adapted?**
- **Technological Resource Centers: what tasks and how to manage them?**
- **Maintenance of CPs: who should be in charge, mechanisms?**



Proposed project

- **Tunisia Regional Economic Development Project**
- **Covering the 4 CPs. Possible investment of \$40m**
- **Components:**
 - **Financing of off-site infrastructure (emphasis to connectivity & communication)**
 - **Financing of technological platforms inside CPs: Technological Resource Centers, Incubators**
 - **Financing of TA:**
 - **M& E of CPs (employment generation, regional economic backward and forward linkages)**
 - **Collaborative projects inside CPs**
 - **Regional Development studies and TA to Governorates, Municipalities**
 - **Land Management studies and TA to the Ministry of Public Works**

