

مجلس التوازن الاقتصادي  
TAWAZUN ECONOMIC COUNCIL



# **Tawazun Economic Program**

## **Frequently Asked Questions**

2015/2016 Edition

**1. Does Tawazun Economic Program (TEP) allow programs only in the sectors specified?**

Yes projects proposed should fall within one of the focus sectors mentioned in Section 1.4 of the TEP 2015-2016 Guidelines document. Projects in a different sector will most likely be rejected.

**2. Can the contractor request a grace period? How much grace period can be awarded?**

By default, every contractor is provided a one year time period from the date of signing the supplemental agreement to start the base program. And the first milestone (5%) is due one year after start of the base program.

The contractor can request an additional grace period, which has to be thoroughly justified within the business plan. Tawazun Economic Council may allow a grace period solely at its discretion. Given the milestones of first three years can be met solely with input credits, the policy is designed to give contractors sufficient lead time of nearly five years before output credits needs to be generated. Hence grace period is not usually awarded unless the projects require significant lead time for activities such as infrastructure setup and knowledge transfer.

**3. How are net profits calculated for purposes of Output credits in JVs?**

Net profits are taken from the audited financial statements of the JV established between the contractor and local company. Net profits are net earnings as per standard accounting terms, and not EBIT or EBITDA.

**4. How is UAE national compensation calculated?**

UAE national compensation includes all cash compensation provided to UAE nationals. This includes compensation such as salaries, allowances and annual bonus. Non-cash compensation such as insurance costs is not included.

**5. Are the milestones flexible? Can they be delayed?**

Once the base program starts, the milestones are not flexible. As per milestone schedule, a minimum number of credits must be achieved by the milestone date. A shortfall leads to liquidated damages (as described in section 2.8 of TEP 2015-2016 Guidelines document).

**6. Will TEC help contractors identify projects or partners?**

It is the responsibility of contractors to identify projects they would like to pursue. TEC will evaluate whether those projects are suitable or not. From time to time, at its own discretion, TEC will propose projects to contractors. Contractors still may or may not chose to pursue these projects proposed by TEC.

**7. Is the land for JV project provided by TEC? Will the contractor get any help from TEC in setting up the projects locally?**

TEC does not provide free or subsidized land or any other inputs for the projects. It is the responsibility of contractors and their local partners to identify and procure the required inputs. Tawazun Industrial Park (TIP) provides suitable facilities for defense and industrial companies. TEC can assist the contractor and local companies in connecting with relevant authorities of TIP, if required.

**8. Is the contractor free to decide whether to propose JV or non-JV options?**

Yes the contractor may choose either option to fulfill credits. TEC recommends that the contractor evaluate multiple projects in parallel to be able to identify the most suitable project.

**9. How will the credits for Work packages be calculated?**

Similar to crediting method for JVs, work packages also have an input and output credit component. The qualifying activities and multiplier for Input credits is the same as for JV method. The output credits are measured based on total size of work package, i.e. the total sales generated by the local company to deliver the work package, as well as a multiplier which is determined by TEC.

**10. How can a contractor find local partner to pursue the JV? What if the local partner does not cooperate in future?**

TEC has a list of major local contractors and their contacts that TEC can provide to the contractor upon request. It is the contractor's responsibility to identify a suitable local partner, and manage the business relationship and agreements with the partner.

**11. Can the contractor setup business in a free zone with 100% foreign ownership?**

100% foreign ownership is not allowed. A local partner must be involved and ideal partnership share is 51% Local and 49% Foreign ownership. Any share of foreign company below 49% will affect the output credits on a pro-rata basis.

*Pro-rata credits awarded = Credits achieved x (Foreign ownership % / 49)*

Any exception to this must be approved by TEC.

**12. How are the output multipliers (Net profits multiplier and UAE National compensation multiplier) different in these updated guidelines (2015/2016 edition) vs. the previous guidelines (2010/2011 edition)? What was the reason for the change?**

The following figures illustrate the differences between previous and current multiplier schemes.

**Net profits multiplier: Previous vs. New**

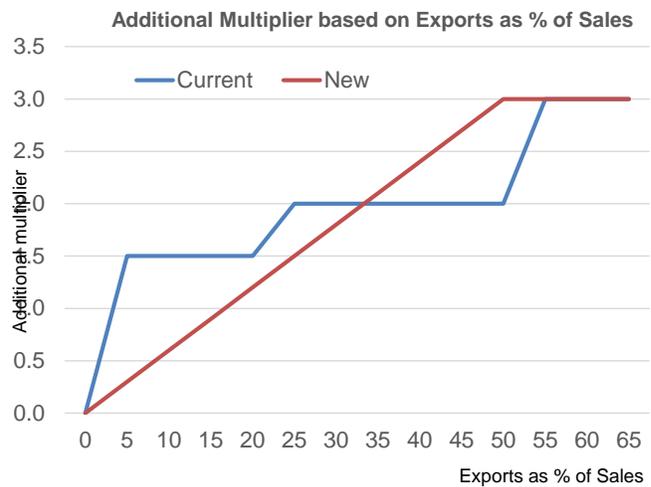
**Previous method (2010/2011 edition)**

- Net profits credits = Net profits for Fiscal Year X Multiplier.
- Multiplier = 2 + Additional Multiplier
- Additional multiplier:

Exports as % of Sales	Additional Multiplier
5% - 20%	1.5
21% - 50%	2.0
51% & Above	3.0

**New method (2015 edition)**

- Net profits credits = Net profits for Fiscal Year X Multiplier
- Multiplier = 2 + Additional multiplier
- Additional Multiplier = Export % \* 6 (max: 3)



## UAE compensation multiplier: Previous vs. New

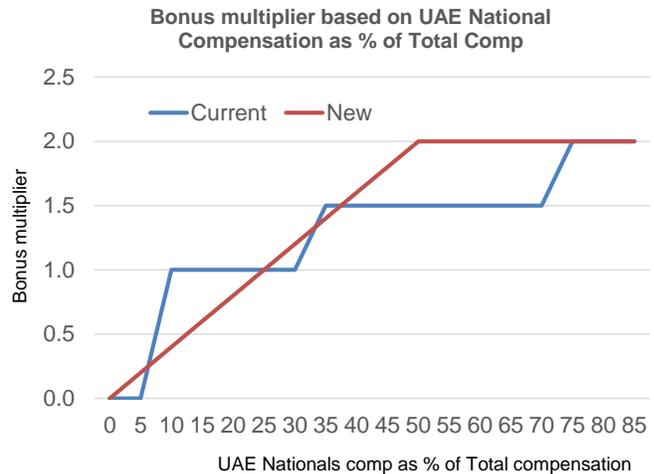
### Previous method (2010/2011 edition)

- UAE salaries Credits = UAE salaries X Multiplier.
- Multiplier = 2 + Bonus multiplier
- Bonus multiplier:

% of UAE Nationals Employees	Bonus Multiplier
10% - 30%	1.0
31% - 70%	1.5
71% & Above	2.0

### New method (2015 edition)

- UAE salaries Credits = UAE compensation X Multiplier
- Multiplier = 2+ Bonus multiplier
- Bonus multiplier = UAE national comp as % of total comp \* 4 (Max 2)
- Maximum bonus multiplier is 2



The new mechanisms provide an ongoing incentive for defense contractors to achieve higher exports (as % of sales) and UAE national compensation (as % of total compensation).

**13. After the contractor pays penalty for falling short of a milestone, is the penalty amount returned to the contractor if subsequently in later years the contractor is able to compensate for the shortfall (i.e. generate excess credits that also fulfil previous milestone)**

No, the penalty amount is not returned in any case. Any excess credits can be used to satisfy upcoming milestones, but not milestones that have already passed.

**14. What are the key changes between the new (2015/2016) and previous (2010/2011) Tawazun Economic Program guidelines?**

There are five main enhancements in 2015 edition of Tawazun Economic Program.

- Work packages have been introduced as an alternative to JVs to achieve output credits
- Sector focus has been revised (per Section 1.4 of TEP 2015-2016 Guidelines document)
- Input multiplier for JVs has been set at a fixed value (Section 3.2D of TEP 2015-2016 Guidelines document)

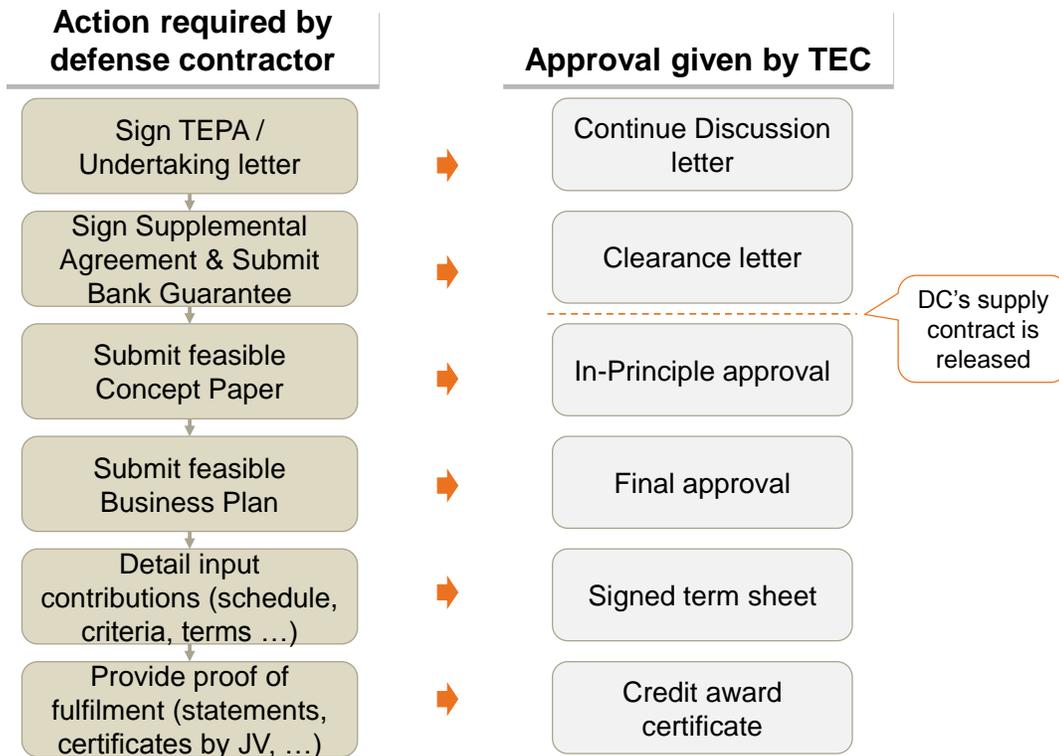
- iv. Multiplier formulae for Net profits (based on exports %) and UAE Nationals compensation (based on UAE National compensation %) have been revised as described above
- v. The end to end process for Tawazun Economic Program has been described in Section 4 TEP 2015-2016 Guidelines document

## **15. What agreements does the contractor need to sign and at what stage?**

The following agreements must be signed between Tawazun Economic Council and the contractor:

- i. If Contract value is  $\geq$  USD 5 million, Tawazun Economic Program Agreement (TEPA) must be signed to confirm contractors commitment to participate in the Program for contract value exceeding USD 10 million over a five year period. TEPA only needs to be signed once by a defense contractor, until the agreement is revised by TEC. TEPA needs to be signed before GHQ can release the defense contractor's supply contract. Signing of TEPA provides defense contractor with a Clearance Letter, which is an essential requirement by the GHQ to release the supply contract.
- ii. If Contract value is  $<$  USD 5 million, an Undertaking letter must be signed, that confirms contractors understanding of Tawazun Economic Program requirements once contract value exceeds USD 10 million over a five year period. Undertaking letter only needs to be signed once by a defense contractor, until the agreement is revised by TEC.
- iii. A supplemental agreement (SA) needs to be signed between TEC and the contractor that states the contract value and total Tawazun Economic Program obligations resulting from the contract value under the given GHQ contract. If the contract value is not finalized or purchases happen on a recurring basis, a Master Supplemental Agreement (MSA) needs to be signed between TEC and the contractor. The MSA covers all purchases under the given GHQ contract number.
- iv. Upon approval of the business plan, a term sheet needs to be signed between TEC and the contractor that outlines the credit fulfilment plan to be followed by the contractor. The term sheet includes list of input contributions (deliverables), their criteria and timeline for fulfilment. The term sheet also includes various aspects of the project including IP, export control, reporting requirements, etc.

The following figure illustrates the various interactions (submissions and approvals) between the contractor and TEC



### 16. When should the contractor submit a concept paper or business plan?

Concept paper must be submitted after receiving the Clearance Letter from TEC. TEC reviews the quality, completeness and feasibility of the concept paper before providing an In-Principal approval. Defense contractor is encouraged to submit a concept paper to TEC as early as possible in the process, ideally as soon as they submit a contract proposal to the GHQ/PGC.

### 17. How long does TEC need to assess and approve a business plan?

TEC aims to take 60 days to approve / reject a business plan based on an internal feasibility assessment. If there are any questions or concerns about the business plan, TEC will make all endeavors to inform the defense contractors as early as possible in the process. Delay in receiving required clarification could delay the timeline for evaluation.

### 18. Is there a concept paper or business plan template the contractor may use?

TEC provides a standard concept paper template that the contractor should use. For the business plan, there is currently no template and TEC may release one in future. In the meantime, contractor is free to use a suitable structure for the business plan development.

**19. When should the defense contractor submit the Bank Guarantee?**

A Bank guarantee must be submitted by the defense contractor along with signing of the supplemental agreement. As described in the TEPA (Tawazun Economic Program Agreement), Bank Guarantee must be delivered within thirty (30) days of execution of the Supplemental Agreement.

**20. Which banks should the Bank Guarantee be issued from?**

The list of approved banks is mentioned in the Tawazun Economic Program Agreement (TEPA).

**21. Can the contractor negotiate the Bank Guarantee value?**

The value must be as per the TEPA and completely non-negotiable.

**22. Does TEC get involved in the signature of the JV agreement between the foreign and local contractors?**

TEC's role is to oversee and approve the input contributions provided by the foreign contractor to earn input credits. During and post formation of JV, several input contributions are usually contributed by the foreign contractor, including cash and knowledge empowerment. TEC signs a term sheet with the foreign contractor that establish legal commitment of input contributions by foreign contractor. Other than Term Sheet signing, TEC does not take part in the JV agreement formation between local and foreign contractors.

**23. Who shall report to TEC for the project's progress?**

TEC monitors each project at least on an annual basis. The contractor will typically be required to assist with a site visit, answering TEC's questions about project progress, and submission of audited financial statements to TEC.

**24. Does TEC welcome civilian products/services as part of the Tawazun Economic Program?**

As defined in the guidelines, TEC welcomes projects in four sectors: Aerospace, Defense, Autonomous systems, Cybersecurity. As long as the project falls within these mentioned sectors, the project should be acceptable to TEC. For instance, the project may chose to focus on civilian side of Aerospace industry.

**25. Will the 2015-2016 guidelines be applicable to implemented projects? How will the new guidelines apply to projects still in concept evaluation and business plan evaluation?**

As of November 30 2015, all projects that have already signed Terms Sheets referring to 2010-2011 guidelines, will not be affected by the new guidelines. All projects that have not yet signed a Term Sheet and may still be in concept or business plan evaluation will refer to the new (2015-2016) guidelines.

**26. How are concept papers and business plans evaluated? Will the Work Package type projects be evaluated differently from JV projects?**

TEC uses a fair, objective and systematic method to evaluate all concept papers and business plans. A project evaluator is assigned to review each concept paper and business plan. The project evaluator uses a standard criteria to evaluate the feasibility of concept papers and business plans and establishes a net score. The evaluation is presented internally to management team and receives an approval if it meets the key requirements and achieves a certain minimum score.

Regardless of whether a JV or Work package project is proposed, the project must fall within the defined sectors of focus. Beyond this, a JV must fulfil business feasibility requirements (commercial/financial, legal, risk, etc.) at the business plan stage. A work package must have a proven causality and incrementality from the foreign contractor, which will be validated independently from the local UAE Company receiving the work package.

**27. How can a contractor maximize their credit achievement?**

Using input contributions contractors can fulfil up to 30% of credit obligations. For output credits, the contractor can get a higher multiplier (up to 5) by increasing level of exports and increasing the share of UAE nationals' compensation. Details of multiplier scheme are provided in the policy guidelines.

**28. Is TEC able to suggest local partners?**

TEC has a list of local partners with their profiles and contact details. Foreign contractor may request this list through their TEC relationship manager. TEC cannot make recommendations on which local company to partner with.

**29. Do contractors need to sign a new TEPA to migrate from 2010/2011 guidelines to 2015/2016 guidelines?**

Contractors are not required to sign a new TEPA. 2015/2016 guidelines integrate with the existing TEPA already in place.

**30. How does TEC value technology or know-how transfer? What methodology is used by TEC?**

TEC requires the contractor to submit details on the value and valuation methodology of input contributions in their business plan. TEC may independently validate the methodology and total amount claimed by the contractor. The type of methodology may vary, ranging from cost-plus method, NPV of free cash flow, reference to benchmark transactions, etc. The objective is to establish fair market value.

**31. Can a foreign contractor partner with a UAE companies based in Dubai or Northern Emirates, or only Abu Dhabi companies are allowed?**

Tawazun Economic Program is to benefit the whole of UAE, hence the foreign DC may partner with any UAE local company regardless of which emirate it is registered or operates in.

*For any additional questions, defense contractors should contact their relationship manager.*