

**INAUGURAL MEETING OF WORKING GROUP 3
MENA/OECD INITIATIVE ON INVESTMENT FOR DEVELOPMENT**

**Meeting held in Manama, Bahrain
26-27 January 2005**

**Main Conclusions of Meeting and
Action Plan**

Conclusions of Inaugural Meeting of Working Group 3 and Action Plan for Phase I of the Programme

Working Group 3 “Providing a Tax Framework for Investment and Assessing Incentives” was successfully launched during its inaugural meeting in Manama, Bahrain from 26-27 January under the Chairmanship of the Economic Development Board of Bahrain. The broad objectives of this Working Group are to review current tax policies and tax administration as well as incentives for investment (tax and non-tax) to assess their role in shaping direct investment flows and meeting tax revenue targets. Representatives from Bahrain, Egypt, France, Germany, Japan, Lebanon, Morocco, Saudi Arabia, Turkey and the United States participated in the meeting. The participants expressed their deep appreciation for the excellent organisational and leadership skills of the host and chair of the meeting, the Economic Development Board of Bahrain.

Main Conclusions:

1. The participants welcomed the opportunity to engage in an exchange of views involving MENA and OECD countries experiences in attracting investment through sound and transparent tax and incentives policies and principles based on OECD work in this area, including findings of a similar and successful project in South East Europe.
2. The creation of WG3 is well-timed, with several MENA countries, such as Egypt and Morocco, engaged in the process of reforming their tax systems to attract investment by lowering rates, re-examining existing incentives, increasing compliance through more efficient tax administration and greatly simplifying their rules and regulations.
3. In consultation with other working groups, WG3 will provide a framework for development of country-specific action plans to strengthen the tax and investment environment and support existing reform efforts based on the results of the tax questionnaire, preliminary non-tax incentive questionnaire and investor survey.
4. A series of capacity building workshops will be held on relevant tax and incentive topics for senior tax policy makers in the MENA region to further develop their ability to analyse the costs and benefits of alternative tax and incentive policies in the context of current national reform efforts.
5. Given the diversity in economic development and governance structures of the participating countries, it is not possible to design a uniform approach to tax and incentive reform in support of investment. But through the activities of WG3, countries can exchange knowledge on improving the efficiency of their tax and incentive systems and designing their own priorities for reform.
6. From the presentations from participating MENA countries and the policy dialogue, it is possible to distinguish four groups of MENA countries having different needs for policy advice:
 - The GCC countries that have limited corporate tax systems now but may wish to reassess their systems of revenue, expenditure and incentives over time as the diversification of their economies increases;
 - Countries, like Morocco, having a complex and widespread systems of tax and non-tax incentives which may request advice for review and simplification;

- Countries, like Egypt, embarked on major tax reform involving substantial cuts in corporate tax rates which may request advice for managing the transition process and examining current incentives;
 - Countries without developed tax and tax collection systems, like the Palestinian authority, that may request advice in constructing the basis of their tax system
7. Targeted efforts within the MENA Investment Programme to support tax and incentive reform within these groups of countries will require further support by the donor community.

Action Plan for Phase I (February – July 2005) as Agreed by Participants

- Prepare a summary report on determinants of FDI, including the role and design of tax systems and incentives based on the results of questionnaires completed by countries, in consultation with other working groups of the investment programme examining non-tax incentives, taking into account the four general categories of participating MENA countries.
- Prepare a draft report synthesising results of the investor survey, with a focus on responses identifying impediments to investment in MENA countries.
- Contribute to the work of other working groups on non-tax incentives, including shared understanding of the costs and benefits of incentives-based strategies and policy alternatives.
- Identify alternative tax reform and incentives strategies for growth, job creation and investment, in consultation with other working groups of the investment programme.
- Develop an agreed framework to assess current and proposed tax and non-tax incentives offered by MENA countries in consultation with other working groups of the investment programme, and drawing on existing work of the OECD.
- Assist country economic teams set achievable targets for national tax and incentive reform initiatives they may wish to integrate into their investment policy agenda.
- Assist the MENA GCC countries that may wish to reassess their incentives systems as well as systems of revenue and expenditure over time as the diversification of their economies increases.
- Hold capacity building workshops in 2005 and provide guidance on tailored workshops for 2006.
- Agree to hold next WG3 meeting in late June 2005.