

May 10, 2006

National Investment Reform Agendas - Partnering for Investment

*Morocco, Egypt, Jordan, Yemen, Lebanon, Palestinian National
Authority, Oman, Bahrain*

- Draft -

MENA-OECD Investment Programme

National Reform Agendas – An Ongoing Process

1. One of the key objectives pursued by MENA countries along with the MENA-OECD Investment Programme is to share good practice of investment policy reform and provide visibility to ongoing reform implementation efforts. To this end, MENA countries have developed *National Investment Reform Agendas* with concrete targets for implementation. The objective of the *National Investment Reform Agendas* is to provide a framework for MENA countries:

- To focus investment policy reforms on key areas;
- To improve the image of the region as a whole for destination of investors;
- To provide a basis for regional dialogue and exchange of experience amongst MENA countries on investment policy reform and economic diversification;
- To focus international and regional donors' activities on supporting MENA countries to achieve their investment policy reform targets.

Institutions collaborating with the MENA-OECD Investment Programme are encouraged to participate in the process of assisting MENA countries to realise their reform objectives set out below.

2. Each of the *National Reform Agendas* includes targets broadly, but not exclusively related to the 5 working groups of the MENA-OECD Investment Program, namely:

- Open and Transparent Investment Policies;
- Encouraging Investment Promotion Agencies and Business Associations to act as driving forces to economic reform;
- Providing a Tax Framework for Investment and Assessing Incentives;
- Promoting Policies for Financial Sector Development and Enterprise Development in Support of Diversification;
- Improving Corporate Governance.

4. This document summarises the progress that MENA countries have achieved in the elaboration of their *National Investment Reform Agendas* under the MENA-OECD Investment Programme to date. Specifically, it outlines the items identified in the 8 National Reform Agendas (Morocco, Egypt, Jordan, Yemen, Lebanon, the Palestinian National Authority, Oman and Bahrain).

5. The investment policy reform targets included in each of the Agendas are the result of a process of dialogue in the Steering Group, Working Groups and Task Forces of the Programme and country missions conducted in 2005/06. They have also been updated as a result of the presentations made by heads of delegations at the MENA-OECD Ministerial Meeting which took place on the 13-14th of February 2006 in Jordan. The *National Investment Reform Agendas* reflect the different stages at which MENA countries find themselves in terms of reforming their investment climate. Likewise, these documents vary in terms of the concreteness of the proposed targets.

6. For each country the reform agendas are divided into two categories of targets: The first group of targets cover those priority areas calling for immediate action and review of results during 2006. The second category represents the targets coming up for review in 2007.

Partnership Objectives

7. The objective of this document is two-fold:
 - to indicate the time bound reform targets chosen by each of the countries and indicate concrete steps for implementation,
 - to develop synergies with other organisations through joint efforts to support specific policy reforms.

8. As part of the latter process, *partner organisations are asked to identify areas of possible cooperation* in terms of sharing of information or know-how, missions to the countries, co-sponsoring workshops, capacity-building and any other type of synergies which could be generated on specific reform items. Partner organisations are encouraged to submit proposals to the Secretariat, and the Secretariat commits to distributing updated versions of this document as MENA countries continue to elaborate their reform plans.

9. *For this purpose, partner organisations are kindly asked to focus on the 3-6 targets included in the first category of policy reforms.*

MOROCCO
(as of 6 March 2006)

I. The following targets have been selected as areas for action and review in 2006:

1. Assessment of FDI Restrictions List and Reduction of Remaining Barriers

Although measures to liberalise FDI have been taken very early in Morocco, further efforts to assess the effectiveness of remaining sectoral restrictions need to be undertaken. For example, *Morocco* reserves the right to limit foreign participation in the capital of large banking institutions in cases where the holding could lead to taking over control. Approval to perform as an insurance intermediary is only given, subject to an opinion by the Advisory Committee on Insurance, to natural persons of Moroccan nationality and to legal persons governed by Moroccan law with their headquarters in Morocco and with at least 50 per cent of the capital held by natural persons of Moroccan nationality or legal persons under Moroccan law; the person in charge must be a Moroccan national.

Among other key FDI restrictions is the prohibition on non-residents to issue capital market securities, bonds or other debt securities as well as other restrictions listed in international obligations of Morocco.

Action: A transparent assessment of the remaining horizontal or sectoral barriers to market access with a view towards liberalisation. In particular, by June 2006, a report on the evolution of liberalisation of the banking and assurance sectors will be prepared for which the government is asking for additional expertise.

Partners:

2. Evaluation of efficiency of existing tax incentive schemes

The 1995 Investment Charter foresaw the introduction of various tax incentives for investors. To take an example concerning investment incentives, in *Morocco*, exporting companies are fully exempt from corporate income tax for 5 years and then have a 50 per cent tax reduction on profits from exporting. Enterprises located in the Tangier Free Trade Zone in *Morocco* are eligible for exemption from all registration taxes and stamp duty for constitution or augmentation of capital and for land acquisition, are exempt from licence tax for 15 years, are exempt from profits tax for the first 5 years and a reduced tax rate of 8.75 per cent thereafter, and are exempt from VAT on imported goods. It is not clear whether these incentives are available on equal terms to domestic and foreign investors, though generally the tax exemptions in Morocco apply in a horizontal manner.

Action: Produce an assessment report on the effectiveness of the current Moroccan system of investment incentives, particularly tax incentives with recommendations for improvement.

Partners:

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3. Comprehensive Reform of the System of Tax Exemptions

An evaluation of the current tax exoneration system, including incentives to foreign investors, is currently conducted by the Moroccan government and a report will accompany the new revised version of the tax code to be presented to parliament. However, a more comprehensive overhaul of the incentive system would need a more profound analysis and political support. There has been already considerable encouragement from the EU, the WB and the IMF to rationalise the complicated tax exoneration system. In 2001, the IMF carried out a detailed analysis of the modernisation needs of the Moroccan tax system. On the basis of this study, the government is preparing a medium-term reform programme which will tackle the various taxation systems. First steps were already taken in the 2005 budget by demanding taxes from co-operatives. The Finance Ministry plans to simplify VAT and extend its scope in the coming years. Furthermore, the plan is to reduce the number of taxes from 42 to 17 while widening scope and recovery rates. Since the independence of the country, every year further exemptions were added. Only last year the *Direction General des Impots* changed its policies and started to suppress exemptions. The efficiency of the exemption system is currently under scrutiny in the government (*Direction Generale des Impots*). A report will be finalised until October when a new revised tax bill will be presented to parliament (harmonisation of the procedural aspects reducing the scope for interpretations is foreseen to become law in 2006). Until 2008 a more comprehensive tax reform is foreseen comprising a substantial elimination of tax exemptions.

Action: The *Direction General des Impots* is currently conducting an assessment on reducing tax exonerations and the number of taxes while widening the scope and improving tax collection and is asking for the provision of further expertise. The Ministry of Finance and Privatisation will be presenting a note on the advancement of this process to the Programme.

Partners:

4. Improving Corporate Governance of Banks

The Moroccan banking sector saw steady and sustained growth throughout 2004-2005. However, the specialized public banks' performance remains weak, though it is improving. Work remains to be done on raising capital and reducing non-performing loans in this sub-sector. In its recent annual report the Central Bank noted again the high level of non-performing loans and asked for further reforms of the judicial system to shorten the delays in the recovery of claims. Improved corporate governance of banks remains a key financial sector reform issue to be pursued. The new 2004 banking law reforming the central bank's charter is expected to bring positive change, but needs to be implemented in practical terms. More autonomy in this regard is needed for the central bank and its supervisory role in this process. The reform package includes the reform of the Central Bank's Status, by strengthening its independence and supervisory function as well as its leading role in monetary management and banking sector regulation; a new banking law which includes the creation of a joint supervisory commission for the whole banking and non banking sector; a number of provisions regarding the financial sector, such as the strengthening of the financial market supervisory body (le Conseil déontologique en valeur mobilières) and reinforcing the control of financial operators.

Action: Enhance the autonomy of the central bank and its supervisory role. Improve the systems for internal and external controls and sound risk management of state-owned and private banks, with a special focus on preventing related lending, disclosure of ownership and financial relationships, as well as improved board practices.

The Government of Morocco will produce by June 2006 a note on progress realised on reform steps regarding corporate governance of the banking sector and is asking for provision of further expertise on specific sub-items.

Partners:

5. Improving Access of Enterprises to Bank Credits

The Kingdom presents all the components of a modern financial system as a result of efforts undertaken since 1993. However, with the exception of the primary market for government securities, financial markets remain under-developed. Stock markets are small, most companies listed coming out of the privatisation. Many SME resist the transparency requirements which would be condition for listings.

On the regulatory side, in Morocco, the issuing of capital market securities by non-residents is prohibited. There are no controls on the sale of Moroccan securities by non-residents. Proceeds from such sales may be transferred freely, provided that the relevant purchases are financed by foreign exchange inflows or other comparable means. In other cases, the proceeds must be deposited in a convertible dirham account and may be transferred abroad over a five-year period. When it comes to banks like in other MENA countries, excess liquidity and low credit allocations are one of the paradoxes of the Moroccan economy. Ample liquidity in the banking sector on the one hand and lending restricted to relatively risk-free large national or foreign group, or treasury bonds and a real economy requiring investment on the other.

Action: A report on steps taken to improve the state of enterprise financing, notably SMEs, is scheduled for presentation to the Programme in June 2006 and the government is requesting for further expertise on implementing actions already initiated by the Government to bring banks and companies together and help the latter augment their capital as well as reinforce the guarantee mechanisms in place to ease company credit risk.

Partners:

6. Implement Structural Measures to Support Venture Capital Funds

A new incentive system for venture capital firms is currently discussed in the government and strongly supported by the Ministry of Finance and Privatisation. The reform foresees tax breaks to foster the

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operation of capital funds. A compromise is currently being negotiated in the government. (The EIB is supporting this effort in co-operation with a local bank).

The following structural measures can be considered:

- Support public-private sector partnerships for SME venture capital funds and investment funds ensuring a level playing field for all market participants;
- Join with international donor agencies and private partners in creating public-private venture capital funds and investment banks to assist SMEs;
- Implement a favourable tax regime for investors in venture capital funds.

Action: A report on achievements and necessary measures on legal framework regulating capital risk and evolution of investment funds will be delivered by June 2006 and the government is asking for shared expertise from OECD and other MENA countries.

Partners:

II. Reform measures for review in 2007:

Enhancing the Reform of the Judicial System

Business surveys still point to the need to modernise the judicial system as the one overarching priority for contract enforcement and the guarantee of property rights. According to private sector representatives the justice system remains one of the major investment environment issues for foreign and domestic investors alike. Efforts like the World Bank-assisted programme to computerise the Casablanca commercial courts point in the right direction. What is also needed is a better-trained judiciary including adequate specialisation in commercial law.

In this environment commercial arbitration remains an important tool of enforcement of contractual and property rights. However, not all companies consider arbitration clauses in their contracts with government authorities.

Action: Implement the existing action plan for reform of the judicial system with a focus on commercial courts. Provide further expertise on similar reforms in other MENA and OECD countries.

Partners:

Development of human resources

The education system was cited by all private sector interlocutors as a major business environment issue. Companies often have to step in to fix educational gaps left by the state education system. The university curriculum is not sufficiently geared towards entrepreneurship culture and know-how relevant for

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enterprises. Generally, the high school level education system is not seen as adequately serving the needs of the business community, and students are generally not seen as well prepared for the requirements of a modern private sector work environment. The industry, trade and telecommunications ministry is in charge of the modernisation and professional training. The rate of higher and middle-level training has still to be increased. The EU’s MEDA programme is helping to achieve this aim with its TEMPUS Programme. A new regional USAID project known locally as the Morocco Education and Employment Alliance (MEEA) envisions a Morocco where every young person has the chance to complete middle school, has the marketable skills, attitudes and behaviors appropriate to the modern economy, and finds decent work based on those skills.

Action: Strengthen existing reform efforts in the area of higher education and improvement of the link between business and the educational system. Detailed steps to be defined.

Partners:

Strengthening Independent Business Associations

Upgrading enterprises to make them able to cope with the stronger competitive environment after investment and trade liberalisation remains a key challenge for private sector development. Business and professional organisations can play a key role in these endeavours. However, professional associations and business associations in Morocco still need further support to take on these challenges. Many still need structural support and assistance for becoming organisations which are able to deliver both: services to their members and proactive policy advocacy vis-a-vis the government.

Action: *Support ongoing programmes (amongst others EU MEDA Initiatives) for training and strengthening of independent business associations using the MENA-OECD Business Network.*

Partners:

Focusing Investment Promotion on the National level in a Single Agency (ONIX)

Although Morocco embarked very early on reforms of its investment environment, the institutional setting for investment promotion differs still from other countries in the region. Morocco has created several entities to assist investment projects, such as the Regional Investment Centers, the Investment Division of the Economic Upgrading Ministry and an Inter-ministerial Investment Commission. 16 Regional Investment Centers (Centre Regional D’Investissement) have been established in 2002 which provide for company registration and other services for investors. One-stop shops have successfully accelerated and simplified licensing procedures. These centers serve as valuable partners to investors who would otherwise face numerous different interlocutors to deal with. However, the process behind the one-stop shop is still of concern. The Investment Division’s mission is to assist investors by providing information on the legal framework and administrative requirements, land acquisition and industrial zones. The Inter-ministerial

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Investment Commission is chaired by the Prime Minister and plays a key role in implementing measures to improve the business climate and addressing impediments pertaining to investment projects.

Speaking on behalf of the private sector, la Confédération Général des Entreprises du Maroc (CGEM) sees further room for improving the efficiency of institutional investment promotion in general. Accordingly, the Investment Division of the Economic Upgrading Ministry (Direction des Investissements in the Ministère des Affaires Economiques et Generales) should be assigned clearer competences. The private sector recommends further decentralisation steps and argues for the strengthening of public-private partnerships in order to improve investment related services. Also the attachment of the Regional Centers to the Minister of Interior was regarded as questionable and business claims in general to be more formally associated with the existing Regional Investment Centers.

The creation of the Office National Promotion Investissement et Exportation (ONIX) has been proposed already in 2002 but the implementation is pending a final consensus in the Moroccan government. ONIX would unify all the investment promotion functions on the national level in one single autonomous agency reporting directly to the Prime Minister.

Action: Introduction of ONIX as an independent Investment Promotion Agency as proposed in the draft legislation. Further assessment of the benefits provided by such a re-organisation.

Partners:

Increase access to investment related data – upgrading internet facilities

Morocco's data on investment laws and regulations could be presented more coherent and more details geared towards the needs of investors could be provided. The *Ministry of Economic Affairs* has an *Investment Directorate* web site (in French only) [<http://www.invest.gov.ma>] that contains investment legislation and a flow chart showing the procedures for setting up a business in Morocco. The *Ministry of Foreign Affairs and Co-operation* web site [<http://www.maec.gov.ma>] maintains a list of bilateral and multilateral agreements signed by Morocco. An investment promotion section in the web site of the *Ministry of Industry, Trade and Telecommunications* site [<http://www.mcinet.gov.ma>] could be improved. Web sites of Moroccan embassies and consulates general also lack information of specific use to foreign investors, with the exception of that in *Seoul* [<http://www.moroccoemb.or.kr>], which has a simple but well-organised section on Investing in Morocco.

Action: Develop a common internet platform comprising all investment related information.

Partners:



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EGYPT
(as of 7 March 2006)

I. The following targets have been selected as areas for action and review in 2006:

1. Assessment of effectiveness of One Stop Shop (GAFI)

The General Authority for Investment and the Free Zones (GAFI) is operating a one stop shop which has started operating in Cairo head office in *December 2004*, opened in Alexandria in *2005* and will soon open in three other governorates (Assiut, Giza and Ismailia). The One-stop-shop concept in Cairo is to be replicated in the rest of the governorates. The Ministry of Investment is keen to enlist the participation of business associations in the licensing process to facilitate procedures and save time and effort. A pilot project has begun with the *10th of Ramadan Investors Association*. GAFI signed a Memorandum of Understanding to give the association authority to handle some of the registration procedures at their premises on GAFI's behalf.

The one stop shop in the Cairo headquarter gathers representatives from 22 Ministries and 52 Affiliated Agencies authorized to provide with all necessary licenses and approvals required for the establishment of businesses (according to law n. 8 for 1997, and law n.159 for 1981). Offices of commercial registry have been also transferred to the One Stop Shop.

Action: Assessment of the effectiveness and challenges of the established one stop shop, particularly its interaction with other government ministries and agencies and private sector associations.

Partners:

2. Implementing tax reform and streamlining of tax incentives

A new tax law makes the Egyptian tax system more transparent for foreign Companies. This serves the aim of the new law to attract additional investment and reduce the scope for tax evasion by the gray economy. The Egyptian Parliament in the summer of 2005 enacted this comprehensive tax reform. The new law switches government's approach from providing tax incentives towards an overall tax reduction. It reduces personal and corporate income taxes, and rationalizes tax exemptions. It also introduces a 50 % reduction in personal and the standard corporate tax rate is reduced from 42% to a maximum rate of 20%. Furthermore, the new tax legislation reduces the scope for discretion and complicated compliance procedures. To maintain the revenue base and modernize their tax system, the law contains a number of significant international tax provisions and anti-abuse rules, including residence-based taxation with foreign tax credits, introduction of transfer pricing and thin capitalisation rules and definitions of permanent establishment and royalties.

Action: Review of the new taxation legislation and its application in relation to the free zones. Provide expertise on implementing the new legislation ensuring transparency, simplicity and competitiveness. Help

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the establishment of a large taxpayers Office, in addition to automating and mechanizing the Tax Authority.

Partners:

3. Capital Market Development

The Egyptian Capital market has been an early developer by regional standards. The Cairo-Alexandria stock exchange reopened in 1993 with the enactment of the Capital Market Law that removed restrictions on foreign investment, introduced changed into primary and secondary markets, etc. In 1999, the stock exchange has started electronic trading activities. The following other reforms have been introduced more recently:

- Issuing the Executive Regulation for the Securitization Law
- Issuing a Prime Ministerial Decree allowing the establishment of the Investor Protection Fund (IPF), an insurance fund that would help investors hedging their positions against non-commercial risk
- Amending the Corporate Law to allow the introduction of 'Employee Stock Option Plans' (ESP) to the financial market
- Re-shaping the organizational structure of the Capital market Authority (CMA) and establishing a Corporate Governance department
- Issuing Codes of Ethics and Conduct for brokerage and fund management activities

The following measures are currently envisioned/in progress:

- Transferring all regulatory entities related to the non-banking financial services to the Smart Village with view of establishing a 'One Stop Shop' which includes all financial services related authorities in Egypt (*'Egyptian Financial Services Centre'*).
- Few new financial instruments and mechanisms have been introduced to the Egyptian market. These include (i) the Primary Dealers System for Treasury Bond (ii) the 'Margin Trading' and the 'Short Selling'.
- Other new developments are in the pipeline such as; (i) the introduction of Exchange Traded Funds (ETFs) which are going to be issued by Cairo and Alexandria Stock Exchange and (ii) the introduction of financial derivatives (*to be achieved by the end of 2006*).

Action: These and other relevant measures to deepen the Egyptian capital market are currently being considered. Further expertise for implementation needs to be provided.

Partners:

4. Privatization of State owned Banks and Divesting Public Shares in Joint Venture Banks

The government announced in March 2005 that it will divest of its stakes in all joint venture companies and joint venture banks. No restrictions will be placed on FDI in these transactions. The full privatization of the Bank of Alexandria (B.A.) – the fourth largest State owned Bank in Egypt – has been announced. Privatization of other State owned Banks in Egypt is expected to follow suite. The government has also decided to reduce its ownership in Joint Venture Banks by selling related outstanding public shares.

Together the privatization of the Bank of Alexandria and the divesture of public shares in Joint-Venture Banks are going to be completed *before the end of 2006* and are expected to reduce overall shares of State owned Banks in total deposits from 58% (as of today) to 40%.

Action: Support the privatization initiatives of the Government of Egypt, particularly with regard to establishing a framework for adequate corporate governance of banks.

Partners:

II. Reform measures for review in 2007:

Enhancing Competition Policy

The Egyptian government recognises the importance of adopting a Competition Law as an integral component of governments' efforts to promote the development of a market economy based on the principle of free competition and the promotion of trade and investment. In that regard, the Egyptian Parliament approved Egypt's first Competition Law entitled "The Law on Protection of Competition and Prohibition of Monopolistic Practices" in January 2005 and it entered into force in mid-2005.

Action: Review the issuing of the implementation regulations of the new competition law and identify key obstacles.

Partners:

Encouraging Business Associations

The General Authority for Investment and Free Zones initiated in 2005 an outreach program for Business Associations. This initiative was implemented by signing a Protocol with two Associations, namely Alexandria Business Association and the 10th of Ramadan Investors Association. The main aim of this program is to qualify and provide capacity building for these entities so as to act as an interface between GAFI and private sector representatives.

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Action: Assess the design and launch of this outreach program.

Partners:

MIGA's Technical Assistance (TA) Programme for Investment Promotion

MIGA's TA Programme includes international best practices and incorporates a mechanism to ensure the creation and implementation of an investment promotion unit (Egypt Invest Program - EIP) within GAFI. This programme will allow GAFI to access international best practices that will substantially increase the probability of success of its programs. It has 9 modules including institutional promotional capacity implementation plan, business plan and strategy, training and development to attract FDI.

Action: Provide technical assistance in the implementation phase.

Partners:

Guidelines for Corporate Governance of SOEs

The OECD Guidelines on State-Owned Enterprises represent the first international benchmark to assist governments in improving the corporate governance of SOEs and how they evaluate and improve the way they perform their ownership function. The OECD Guidelines address the State as an owner, and represent what OECD governments agree are the core elements of a good corporate governance regime for SOEs. They provide standards and good practices, as well as guidance on implementation, and should be adapted to the specific circumstances of individual countries and regions.

A number of OECD governments have undertaken significant reforms in addressing corporate governance of SOEs as globalisation, technological changes and liberalisation have made it necessary to readjust and/or restructure the state-owned sector. Many non-OECD countries are also looking towards the OECD experience to guide their own reforms in this regard as they have significant state sectors. In Egypt, even given recent privatization efforts many companies remain in state ownership. The effective governance of these companies is as important as defining further sectors for ongoing privatization efforts.

Action: Develop the first complete and detailed Arabic Code of Corporate Governance of State Owned Enterprises based on the OECD Guidelines on State-Owned Enterprises.

Partners:

JORDAN
(as of 16 March 2006)

I. The following targets have been selected as areas for action and review in 2006:

1. Reform of investment promotion law

Foreign investment in Jordan is regulated by laws No. 16 of 1995 and no. 13 of 2000 which offer together a framework for local and foreign investors and provide facilities and foresee exemptions in areas such as certain industrial sectors, agriculture, hotels, hospitals, convention centres, theme parks and maritime/rail transport and the distribution of water and oil and gas products.

Early 2005, the Jordanian Minister for Trade and Industry proposed the introduction of a new Investment Promotion Law with a view to consolidate regulation and assessing the usefulness of exceptions, institutional structure of investment promotion and incentives provided. Currently, the JIB is drafting a new Investment Law in consultation with other parts of the government. The first draft of the new Investment Law will be presented to the relevant private sector institutions for their feedback before being submitted to the council of Ministers and processed through to Parliament. The expected completion date for the new Investment Law is set for the 30th of June, 2006 while by-laws for this new law are expected to be completed by the 31st of July and amending licensing and approval legislation by 31st August 2006.

Action:

- The Jordan Investment Promotion Law (Law No. 16 of 1995 and its amendments from the year 2000) should be assessed and proposals developed how to strengthen the institutional structure of investment promotion and streamline the incentive schemes.
- An assessment of the negative list of restrictions for foreign investors should be conducted.

Partners:

2. Improving the institutional structure of investment/export promotion

There have been thoroughly elaborated reform proposals tabled regarding the existing institutional overlap between the Economic Department of the Royal Court, the Jordan Investment Board (JIB), the Jordan Export Development corporation (JEDCO), the Jordan Industrial Estates Corporation (JIEC), and the Jordan Authority for Economic Development (JAED). For example, a 2002 USAID audit of the then existing institutional structure showed that “the organisational structures and human resources practices fall short in supporting current goals”. The National Agenda agreed upon by the Jordanian government in September 2005 put forward key recommendations for a new Institutional Framework:

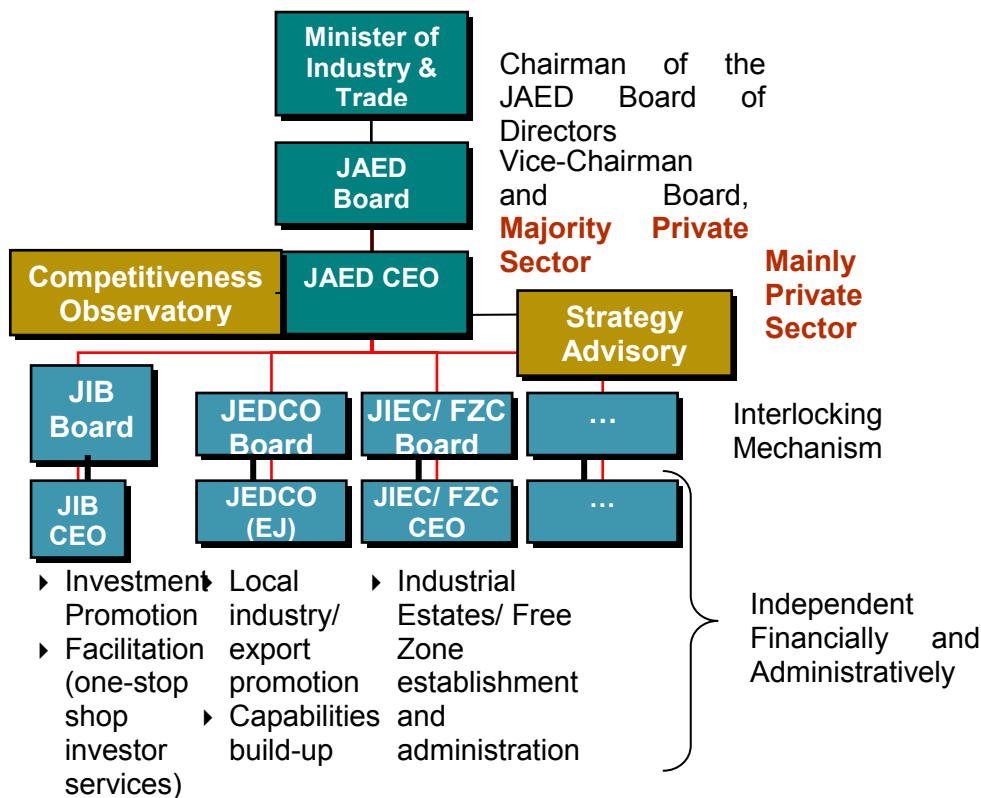
- ▶ The Jordan Authority for Enterprise Development (JAED) framework for investments will group all development entities under one umbrella
- ▶ JAED secures private sector orientation and leadership in governance, and is mandated to:
 - Advocate a systematic and quantitative approach to policy evaluation and formulation

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- Formulate strategies for investment, trade, and enterprise development
- Coordinate execution among entities
- Monitor competitiveness of priority economic sectors
- ▶ Restructure JIB and align operations and promotion funding with investment development strategy
- ▶ Consider merging JIEC and FZC under one entity to eliminate current duplication of roles

The organisation is suggested as follows:

Proposed JAED Framework for Investments



Action: Assess the benefits of the restructuring proposal with a view to enhance synergies between inward FDI promotion, upgrading Jordanian industry, export promotion and industrial real estate policies.

3. Assessment of effectiveness of newly established one-stop-shop in JIB

In May 2004 the JIB launched a one-stop shop with a view to register and license investor projects within 14 working days. Amongst others, the one stop shop facilitates the registration and licensing of investment projects, helps to identify investment opportunities and assists the investor in finding a location for

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business operations. The OSS provides valued services with attaining approvals for investment incentives. It also ensures that the back-end operations (between the OSS and the relevant government bodies) are expedited for the benefit of the investor. However, hindrance in passing laws such as the “E-Visa” law among others have prevented it from fulfilling its full potential, but initial signs are encouraging: The World Bank Doing Business 2006 report is stating a decrease in number of days to start a business to 36 days after the OSS was set up in 2004 in comparison with a 98 days in 2003 prior to its establishment.

Action: The effectiveness of the new one stop shop after almost two years of operation should be assessed and proposals for further improvement of the processes behind the one-stop-shop should be made (licensing procedures in the respective Ministries). The target set by the OSS to further reduce the approval procedures to 6 days in the very near future should be supported.

Partners:

4. Tax Incentive Reform/ Income Tax Reform

The current Jordanian tax incentives schemes are authorised and administered under three separate laws, the Investment Promotion Law of 1995 (IPL 1995), the Jordan Industrial Estates Corporation Law of 1985 (JIECL 1985), and Qualifying Industrial Zones. Jordan’s current investment incentive programme is seen by commentators as complicated and not efficient enough. The main point of critic focuses the overly selective in the sectors and regions it favours, the conditions for exemptions it offers and the periods to qualify for incentives it offers.

The Minister of Finance is examining approaches to comprehensive tax reform on a revenue neutral basis that would eliminate tax distortions caused by the multileveled income tax rates. The tax reform options will be examined in tandem with an overhaul of the current and generous tax incentive schemes. The new Investment Law under consideration (item 1.) will include a thorough review of tax incentives. The National Agenda gives great weight to Fiscal reform, and has recommended a thorough revision of the tax system as a whole to simplify procedures, ensure fairness and equal treatment. However, a new draft of an Income Tax law was submitted recently to parliament but has been defeated.

Action:

- For new investments, profit exemptions should be replaced with a transparent and simple system that encourages capital investment, as recommended by a 2004 USAID report on tax incentives in Jordan.
- The effectiveness of Jordan’s Free Zones Corporations and Aqaba Special Economic Zone should also be assessed as part of this review and reform of tax incentives.
- The Income Tax Law (Law No. 57 of 1983 and its amendments in 1992, 1995, 2001 and 2003) needs to be restructured to create a more desirable tax environment for investment and improve compliance.

Partners:

5. Improving the environment for venture capital funds

The percentage of SMEs in Jordan’s economy reaches 98.5%. Often, the source of capital for starting a business stems from savings of the owner, personal credit cards, home equity loans and funds from friends and the broader family. Access to bank credits remains difficult for SMEs so does access to venture capital funds available in Jordan. Venture capital firms in Jordan can provide equity investment to private SMEs, particularly in high-tech markets. The National Agenda is encouraging the establishment of Venture Capital funds to seek investments in local enterprises. Key performance indicators are proposed to ensure that this does indeed improve. The JIB has also been seeking greater buy-in of local banks to encourage their support for the development of such funds.

Action: To this end, the availability of **venture capital** to companies, and the encouragement of wider corporate venturing relationships between investor and investee companies should be fostered by:

- Supporting public-private sector partnerships for SME venture capital funds and investment funds ensuring a level playing field for all market participants;
- Joining with international donor agencies and private partners in creating public-private venture capital funds and investment banks to assist SMEs;
- Assessing the benefits of implementing a favourable tax regime for investors in venture capital funds.

Partners:

II. Reform measures for review in 2007:

Implementation of new competition law including new competition directorate

In 2004 a new **competition law** (Law No. 33 of 2004) was endorsed by the Jordanian parliament. According to Law No.33 three competition authorities have been established: the Competition Directorate, the Committee for Competition Affairs and the Judicial Authority. The new law aims at establishing the principle of market mechanisms and freedom of prices in accordance with regulatory controls for free competition that is designed to enhance economic activity in the Kingdom, protect consumer interests and the integrity of commercial transactions, safeguard competition, and prohibit alliances and anti-competitive practices.

Action: Additional assistance in capacity building is requested regarding the steps taken to date implementing the competition law, the effectiveness of the interplay between the Competition Directorate and the Committee for Competition Affairs and the Judicial Authority. Recommendations for improvement can be developed.

Partners:

Corporate Governance Code for Jordan/Establishing an Awareness Raising Campaign

The Jordanian Securities Commission and the World Bank launched the WB Report on the Observance of Standards and Codes (ROSC) on Corporate Governance in Jordan on 14 February, at the meeting of the Working Group 5 of the MENA-OECD Investment Programme.

This report highlights the progress made in the regulatory environment in Jordan, notes relatively good disclosure practices and identifies implementation of the legal and regulatory framework as a key challenge. The creation of a Code of Corporate Governance for Jordan would be helpful for the purpose of setting best practice recommendations for board functionality; providing detailed guidance for boards (including duties, legal responsibilities, functions), developing the concept of an “independent director, particularly for the financial sector and could result in recommendations for amendments to the Jordanian law.

Action:

- Implementation of the ROSC recommendations can constitute the main elements of a corporate governance action plan for Jordan. A result could be the development of a Corporate Governance Code for Jordan on which discussions are underway within the Jordan Stock Exchange and the Central Bank.
- Definition of an awareness raising campaign, including training. An important subject matter in this respect is disclosure, including training on monitoring, review of content, compliance. Special attention should be paid to disclosure of beneficial ownership and related party transactions.

Partners:

YEMEN
(as of 9 January 2006)

I. The following targets have been selected as areas for action and review in 2006:

1. Investment Policy Framework and Investment Promotion

Yemen has streamlined its investment laws and procedures in an attempt to attract more foreign investment. Presently, Yemen has several institutions in charge of investment and private sector development: 1) the General Investment Authority which operates under the Office of the Prime Minister, 2) the Privatization Directorate also attached to the Prime Minister's office, 3) the authorities in charge of the Free Economic Zones, 4) the Fund for Social Development, 5) and the SME Fund. The institution most directly involved in investment promotion - the General Investment Authority - combines regulatory and investment promotion activities, under the Investment Law No 22 of 2002 (provisions of which are available at <http://www.giay.org/lawndx.htm>).

A revision of this law is under consideration. It is recommended to assess the institutional framework underpinning investment policy, including: the effectiveness of the present arrangements for investment policy and investment promotion, a systematic evaluation of the types of incentives offered to investors, the strategic role of in investment promotion including image building, information on investment opportunities, policy advocacy functions and support services for investors. The assessment should be undertaken based on international best practices/experience from other countries of the region and OECD countries.

Action:

- A workshop will be organized in 2006 to bring together representatives of different Government departments, participants from the private sector, experts from OECD and MENA countries as well as international organisations to discuss best practices relevant to the assessment of the Investment Law.
- To undertake, with the support of donor organizations, a systematic evaluation of existing investment opportunities in Yemen as a basis for a coherent and efficient investment promotion strategy, and to develop a business plan for targeting investors in these areas. Currently, a list of investment opportunities is publicly available on the website of the General Authority, however a strategy for investor targeting is not in place.

Partners:

2. Business integrity and fighting corruption

The Transparency International annual Corruption Perception Index (CPI), published in October 2004, placed Yemen at 112 out of 146 countries surveyed, down from 88 in 2003. Elimination of corruption is high on the Yemeni National Reform Agenda and subject to a number of reform proposals. Yemen signed

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the UN's Convention Against Corruption in 2003. The Yemeni government has also implemented a number of programs over the years, including a one-year pilot project supporting the Committee for Combating Corruption and Safeguarding Public Funds. To increase the credibility of public institutions and improve the general investment environment, a demonstration of progress in this regard is urgently needed.

The following recommendations are put forth: strengthening the role of the Central Organisation for Control and Audit (COCA) as the central organization for control and internal government auditing; increasing its investigative powers and provide for the publication of its quarterly reports ; introducing an enforceable code of ethics for public officials, issuing the public procurement manual (currently under preparation); developing a public procurement law with high standards of transparency ; creating an independent anti-corruption commission to complement the activities of COCA and disposing of own investigatory powers.

Action:

- Strengthen the institutional capacities for fighting corruption and encouraging concrete steps to implement the national anti-corruption programme as specified above. For this purpose, a workshop will be held back-to-back with the MENA-OECD Taskforce Business Integrity.
- In 2006 COCA will host a meeting of the MENA Task Force on Business Integrity and Anti-corruption, bringing together representatives government departments and the private sector as well as experts from OECD and MENA countries and international organizations.

Partners:

3. Financial Sector Reform

The financial sector in Yemen is considered as too state-dominated, and not having the capacity to cater to the needs of an expanding enterprise sector. The banking sector in general suffers from a large volume of non-performing loans, low capitalization, and weak enforcement of prudential standards. There is no formal deposit insurance system.

The Central Bank of Yemen has worked in recent years to address some of the problems confronting the financial sector, including efforts to improve the operation of local commercial courts, although the country's weak judiciary system is slowing the process. Reforms are necessary to modernize banks, to create functioning capital market institutions, and effective supervisory bodies.

Action: Undertake a comprehensive assessment of the financial sector to include:

- modernization of the banking system
- development of capital market institutions
- improvement of enterprise financing including SME finance.

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Donor support is encouraged, building on existing projects.

Partners:

4. Guidelines for State Owned Enterprises (SOEs)

Based on latest available data from the central bank (2003), Yemen received 71.8 percent of its total revenues from state-owned enterprises. Yemen has no single entity to exercise ownership rights on state owned enterprises and ownership still lies with line ministries. The privatization law promulgated in November 1999 called for a High Commission and a Technical Privatisation Office (established in 1996 and formally reestablished by ministerial decree in March 2000) to guarantee standardized, unbiased, and transparent privatization. A government-sponsored privatisation program was supposed to include 47 companies. Accordingly, privatization of Yemen’s most important state enterprises, due to start with the National Bank of Yemen (NBY), followed by the Aden refinery, Yemenia (the state airline), the Yemen Cement Company and the Public Telecommunications Company, has made minimal progress. Developing corporate governance standards for SOEs and state ownership policy would improve accountability and performance of these enterprises and prepare the ground for successful privatisation operations.

Action: Develop with the government, in line with the OECD Guidelines, corporate governance standards for state-owned enterprises.

Partners:

II. Reform measures for review in 2007:

General Business Environment

The recent Doing Business Report of the World Bank has shown that procedures for enterprise creation are cumbersome and costs relatively high. Entrepreneurs can expect to go through 12 steps to launch a business over 63 days on average, at a cost equal to 240.2% of gross national income (GNI) per capita. They must deposit at least 2,703.2% of GNI per capita in a bank to obtain a business registration number.

Action: Action is required to reduce significantly the number of procedures and costs related to enterprise creation, taking into account successful experience within the region and the recommendations by FIAS and the World Bank. A feasibility study is to be prepared. The Yemeni government is currently requesting further assistance on this item.

Partners:

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At present, there is no clear system for the registration of land property titles which leads to uncertainty among investors. Presently, it takes 6 steps and 21 days to register property. The cost to register property is 3.9% of overall property value. Reforms to this process have been proposed but not yet enacted.

Action: Implement current proposals for a new title registration system. OECD and other MENA countries' expertise to be provided.

Partners:

Consumer Protection

Yemen does not have a consumer protection agency or any comprehensive consumer protection legislation. A number of NGO initiatives aimed at increasing consumer protection in Yemen exist. The Yemeni Association for the Protection of Consumers (YAPC) is a non-governmental voluntary and independent organization established on September 20, 1997. YAPC aims at the protection of Yemeni consumers, catering for their interest and defending their rights through education, awareness and guidance.

The organization has prepared consumer education and awareness programs on the mass media and the publication of a periodic consumers magazine and other information leaflets and education stickers for public schools on health safety. The Yemen Society for Consumer Protection (YSCP) is also publishing a consumer guide on consumer rights, and observing markets and factories on behalf of consumer interests. In addition to these efforts, the government is currently considering a draft law on consumer protection.

Action: Enact a comprehensive consumer protection law covering consumer safety and consumer information, product standards and certification, and a system providing for handling of consumer complaints (including collective action by consumer associations). This law should integrate existing efforts while leveraging best practices from regional and OECD partners.

Partners:

Tax policy design and tax administration

In 2002, the parliament signed into law a general sales tax (GST), but implementation of this major tax reform designed to broaden and rationalize the tax base was delayed with IMF approval while more information about the effect of indirect taxation was collected. A general sales tax (GST) has finally been established and will be implemented progressively. Yemen is also in the process of introducing corporate tax reforms lowering the tax rate and broadening the tax basis. The Tax Administration is being restructured and a department for large taxpayers has been created.

Action: Implement corporate tax reform measures and undertake a systematic assessment of tax incentives to ensure their strategic value to development of key industry sectors and their overall cohesiveness. To this end, Yemeni officials will be invited to attend training programs at the OECD Multinational Tax



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Centers. Assistance and OECD and MENA countries' expertise in corporate tax reform is sought by the Yemeni government.

Partners:

Corporate Governance Standards

The existing corporate sector is composed of privately held, mostly family-owned enterprises. In such a setting, particular attention should be paid to corporate governance mechanisms relating to shareholder rights, board structure, and succession planning. Developing corporate governance standards for these enterprises would improve creditor and investor confidence, and ultimately would contribute to enterprise performance.

Action: Improve corporate governance standards, with a special emphasis on the protection of minority shareholders. Assistance in developing a code of governance will be required.

Partners:

LEBANON
(as of 27 January 2006)

I. The following targets have been selected as areas for action and review in 2006:

1. Reform of commercial legislation

Since the end of the civil war, Lebanon has started the process of rebuilding its government and public institutions. The legal and judicial sector is still suffering from the effects of the civil war. In particular, the Lebanese legal framework regulating commercial activities requires review and reform, as acknowledged by World Bank (Country Strategy Paper, 2005) and EU (Country Strategy Paper 2002-2006). The importance of this area is also factually highlighted by the results of the World Bank's Doing Business Survey, which ranks Lebanon 95th out of 155 economies surveyed. Particular problematic areas are enforcement of contracts, protecting investors, and business processes, where it ranks 142, 102, and 98, respectively.

Initiatives are currently underway in this area by the Ministry of Justice and the Bar Association. These efforts are supported by international organizations such as EU, whose strategy for 2002-2006 will focus on support to institutional, legal and regulatory reforms.

Action: Assist in reform of commercial legislation to facilitate entry and exit of companies, including a review of the company law, development of a modern bankruptcy law and improvements in judicial procedures for contract enforcement and commercial disputes. Expertise in the areas relevant to Lebanese Code of Commerce is sought to support this effort.

Partners:

2. Competition law

The Lebanese Ministry of Economy and Trade has been working on revamping its competition policy to be consistent with international practices. The Ministry has developed an action plan which looks to elaborate a new competition law, establish a competition authority, and create an environment conducive to implementation of this law. This law would need to encompass consumer protection, anti-dumping, IPR, e-commerce provisions. The importance of supporting the Lebanese initiative on competition law is underscored by the fact that the economy remains oligopolistic. The economic background and justification of the law are described in details in the study titled 'Competition in the Lebanese economy – A background report for a Competition law in Lebanon' published in May 2003 by the Consultation and Research Institute.

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Action: Enactment of competition legislation and the setting up of an independent competition authority is required. A workshop could be organized with the participation of OECD and other international experts to provide advice on the design of such an agency and its capacity for law enforcement and competition advocacy within the regulatory process.

Partners:

3. National anti-corruption action plan

Lebanon has laws and regulations to combat corruption, but historically these have not always been enforced. According to the Corruption Perception Index published by Transparency International in 2003, Lebanon ranked 78th in a list of 133 countries. Efforts are underway to combat this problem both by government agencies and NGOs (<http://www.transparency-lebanon.org/>). Lebanon is also currently undertaking the necessary steps to adhere to the UN Anticorruption Convention. Lebanon is not a signatory to the OECD Convention on Combating Bribery.

At the national level, a dialogue between relevant Government agencies, the private sector and civil society to promote integrity in business and the public sector will continue. Emphasis will be given to transparency in business transactions and government regulations, in particular those concerning public procurement, and the protection of whistleblowers, given a new emphasis after the introduction of the Sarbanes Oxley legislation.

Action: Lebanon will continue to play an active part in the MENA Investment Task Force on Business Integrity and Fighting Corruption. Assistance is required in implementation of a national anti-corruption action plan, drawing on experience gained under the OECD's Anti-Bribery convention and other applicable standards and best practices in the region.

Partners:

4. Tax reform

Currently, the corporate tax rate in Lebanon is 15% and the personal rate is 20%. The Investment Law exempts companies that list 40 percent of their shares on the Beirut Stock Exchange from income tax for two years. Other laws and legislative decrees provide tax incentives and exemptions based on the type of investment and its geographical location. Industrial investments in rural areas benefit from tax exemptions of six or ten years, depending on specific criteria (Law No. 27 dated 7/19/80, Law No. 282 dated 12/30/93, and Decree No. 127 dated 9/16/83). Exemptions are also available for investment in south Lebanon, Nabatiyah and the Biqa' (Decree No. 3361 dated 7/7/00).

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In accordance with the reform program prepared by the Ministry of Finance, the establishment of a generalized income tax system will soon be completed. Priority will also be attached to the enactment of a Code of Tax Procedures which will define taxpayers’ rights and responsibilities.

Action:

- A comprehensive review will be conducted on tax incentives for business activities to assess the costs and effectiveness of these measures, on the basis of the Checklist for Investment Incentives of the OECD Investment Committee and the Recommendations of Working Group 3 of the MENA-OECD Investment Program.
- The Lebanese experience with tax treaties will also be reviewed to clarify open issues and to expand the current treaty network.
- For this purpose a workshop will be organized, with the participation of international experts.

Partners:

5. Corporate Governance

Modernization of financial accounting and auditing

A number of laws, decrees and ministerial orders govern Lebanese private sector accounting and auditing, including the Code of Commerce, Ministerial Order of 1996, Higher Council of Accounting and Auditing, banking law, and the Act of Regularization of the Certified Public Accountants Practice of 1994. The audit profession is led by the Lebanese Association for Certified Public Accountants which is still developing the authority and capability required to monitor implementation of accounting standards. It is generally recognised that significant gaps exist between local accounting practices and standards set forth by the ISA and IFS. The International Standards on Auditing and International Financial Reporting Standards are not formally adopted, except for the banking and financial industry and listed companies.

Under the leadership of the Ministry of Finance, work will be carried out to bring the Lebanese accounting system in line with modern practices and, to the extent possible, international accounting standards. Regulation will need to be developed to address: functioning of audit committees, accountability for corporate governance and internal control, audit standards and regulation, and market regulation.

Action: For this purpose, a workshop will be organized bringing together regulators, business, the accounting profession and international experts to assess the existing system and to come forward with recommendations. Recommendations and assistance with practical aspects concerning wider adoption of these standards by Lebanese companies will be needed.

Partners:

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State owned enterprises

Privatisation or increased private sector participation benefits from the implementation of sound corporate governance standards for SOEs. The Lebanon Corporate Governance Taskforce (LCGTF) has already been making strides in improving the CG regulation in Lebanon, including that of SOEs. The National Action Plan of this organisation includes development of corporate governance standards for SOEs in line with OECD Guidelines.

Action: Building on existing programmes, further efforts will be undertaken to improve the performance and transparency of state owned enterprises by introducing patterns of good corporate governance, in line with the OECD Guidelines for Corporate Governance of State Owned Enterprises. This would entail a detailed review of current status of CG practices in SOEs, building on much of existing efforts/already available data, and development of a program to prioritise and implement these measures.

Partners:

Establishment of an Institute of Directors

According to a recent report on corporate governance in the MENA region, elaborated with input from key Lebanese Ministers, and heads of Chambers of Commerce titled *Corporate Governance in MENA Countries: Improving Transparency and Disclosure*, “despite progress in the banking sector, internal CG mechanisms based on clear responsibilities of the board to monitor and direct management and to make sure that the incentives are aligned and any distortion is mitigated, the maintenance of a transparent corporate structure, board independence and the concept of having independent, non-executive board members, are non-operative in Lebanon”. The report further suggests that having more than 51% of board members independent, as it is often the practice in countries of the OECD or North America, is not common in Lebanon. Given these observations, there is a clear need to upgrade the existing legislation and monitor its implementation to ensure CG practices related to Executive Board composition and operation are upheld. The proposed Institute of Directors would be operational in developing good practices for Corporate Boards, and it would also provide training for non-executive Directors.

Action: Draft a concept note on the establishment of this institute, disseminate and discuss future steps. Input is encouraged in the elaboration of the concept note, and at a later stage, with a feasibility study.

Partners:

II. Reform measures for review in 2007:

Reduction of administrative obstacles to business activities

World Bank’s Doing Business Survey, ranks Lebanon 95th out of 155 economies surveyed. The Lebanese government is aware of the importance of removing administrative barriers to investment promotion. Thus, efforts will be undertaken to systematically assess the impact of administrative procedures on the creation

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and expansion of enterprises. Such measures will be taken to reduce the costs and the administrative delays of registration, permits and licensing. Currently, a number of barriers exist in the form of approval requirements.

Action: A joint workshop with the Investment and the Governance Pillars of the Governance and Investment for Development Initiative will be organized to address these subjects and to come forward with specific recommendations. Participation of international organisations in this workshop and development of recommendations is invited.

Partners:

Institutional framework for the implementation of the consumer protection law

A number of efforts are currently underway to establish a framework for consumer protection and strengthen the existing framework for export industries by standardising and certifying local products. One of such initiatives is the Quality Programme of the Ministry of Economy and Trade, funded by the EU to support the government of Lebanon in realizing a greater volume of exports of Lebanese products to the EU markets. These and other related initiatives will allow better protection for domestic consumers and help increase compliance with foreign and international standards.

Action: Input and expertise with institutional arrangements for product standardisation and certification will be required to ensure that Lebanese standards are consistent with currently existing standardisation and certification protocols. Assistance will also be required as Lebanon proceeds to establish a new agency for food security.

Partners:

Capital market

The Beirut Stock Exchange (BSE), founded in 1920, is the primary vehicle for financial management in the country. The Beirut Stock Exchange flourished from 1954 to 1975, but ceased trading in 1983. In February 1995, the Lebanese and French governments began a program to reform and reinvigorate this institution and it re-opened in 1996. Parliament has also passed laws relating to the listing of bank shares on stock exchanges and consequently several banks were listed.

The Lebanese Government considers the development of organised capital markets to be important for the financing of Lebanon's reconstruction and economic expansion. Currently a project is underway to address capital market development in Lebanon under the FIRST Initiative (www.firstinitiative.org) The key outputs of this project are expected to be: an assessment of the current and prospective securities markets in Lebanon and the relevant legislative and regulatory framework; a development plan for the proposed regulatory and supervisory body.

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Action: Work within the framework of existing initiatives, and with input from the OECD Financial Sector Outreach Programme on developing a strategy and measures for strengthening and deepening the Lebanese capital market. Expertise in capital market development in a regional context is sought by the Lebanese authorities.

Partners:

Entrepreneurial finance

Development of regulatory frameworks and financial systems to provide equity finance for entrepreneurial activities is an item of utmost priority for addressing the unemployment gap in Lebanon and elsewhere in the region. With the support of the financial community and using existing research institutions, Lebanon could serve as the basis for a regional centre of excellence on entrepreneurial finance. The Centre would be located in Beirut, with a network of correspondents throughout the MENA region. It would carry out the following activities:

- analysis and research into the possibilities of employment creation through start-ups and expansion of enterprises;
- identification and training of entrepreneurs, including young and women entrepreneurs;
- advice on proper regulatory systems and techniques for enterprise finance;
- training activities for government bodies, financial institutions and enterprises.

Action: Conduct a feasibility study on establishing this centre and develop a concept paper on its role in Lebanon and region-wide. Input is needed from international organisations on the potential scope of work of this center and synergies with existing initiatives in financing entrepreneurship.

Partners:

PALESTINIAN NATIONAL AUTHORITY
(as of 17 September 2005)

The following targets have been selected as areas for action and review in 2006:

1. The Investment Environment and Policy Framework

The Palestinian Authority places a high priority on encouraging foreign investment to promote growth and reduce unemployment. The existing legal framework regulating investment in Palestine is quite liberal. The Law on Encouragement of Investments (1998) promotes capital investment in all sectors of the Palestinian economy by both local and foreign corporations registered to do business in the West Bank and Gaza Strip. A foreign investor can fully own a company without any local partnership requirements. Investors may invest in any sector of the Palestinian economy under the free admission principle. Guarantees for the repatriation of foreign capital and prohibits expropriation and nationalization of approved foreign investments are in place, no restrictions govern foreign currency accounts or official currency transfer policies.

In 1998, pursuant to the promulgation of the Investment Promotion Law, the Palestinian Investment Promotion Agency (PIPA) was established as an autonomous agency of the Palestinian National Authority, and its bylaws were elaborated. PIPA is the agency currently in charge of investment promotion activities in the PA. A One-Stop-Shop was established to assist all investors from licensing their projects, to getting approvals, to acquiring incentives and income tax exemptions. While the framework for investment promotion has been created, the investment environment still needs to be significantly strengthened.

Action: The Investment Law should be used as a tool for promoting an open and transparent investment environment and strengthen the policy advocacy role of PIPA. PIPA will also strengthen its role as an investment promotion agency by:

- Developing building blocks for proactive strategies;
- Identifying investment opportunities in Gaza and the West Bank;
- Holding an investors' conference and follow-up with participants;
- Organising a media workshop to enhance the image of the country and its development potential;
- Creating partnerships with other investment related bodies in the PNA;
- Developing a three years investment promotion strategy and secure funding from donors and partner organisations;
- Preparing timely information for investors by upgrading its website and issuing an annual investment guide.

Assistance will be required with implementation of the above items.

Partners:

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The PA has created a framework of economic laws that aim at attracting domestic and foreign investments to Palestine. These laws aim to provide long-term protection and ensure profitability of potential investors. This framework includes the incentives available to investors in Industrial Estates and Free Zones, as well as general investment incentives. The applicable legislation includes the Industrial Estates and Free Zones Law (Law No 10 of 1998) and the Encouragement of Investment in Palestine Law (Law No 1 of 1998). According to the Palestinian Industrial Estates and Free Zones Authority, incentives include the following: income tax exemption, fixed assets customs and duties exemptions, free movement of capital and profit, export exemption, rules of origin incentives, investment guarantees and preferential access to regional and international market.

Action: Development of a cost effective system of incentives for both national and foreign investment is envisioned. Expertise in strategic assessment of investment incentives is needed to ensure the effectiveness of current and planned schemes.

Partners:

Presently, reliable investment statistics for the PA are not available. As an investment promotion agency, PIPA is well positioned to act as a data bank of foreign investment, in cooperation with other Government bodies and taking into account the work of the MENA Task Force on Investment Statistics.

Action: In collaboration with the PA, a methodology for collecting investment statistics and data (to be used for future planning and analysis) should be developed. Expertise will be needed to summarize the collected data and create a web solution to provide up-to-date and reliable statistics on investment, including FDI.

Partners:

2. The Legal Framework for Business Activities

The legal proposals pertaining to commercial law in Palestine currently lack adequate evaluation mechanisms. Creation of an economic law centre with the mandate of developing a framework for legislative policy, conduct comparative legal studies in preparation for legislative proposals and conduct workshops for enforcement authorities, legislators and judges would benefit the PA. The Centre would be managed as a non-governmental institution and have a governing board composed of representatives of relevant government bodies, the private sector, the legal profession, legislators, academics and international experts.

Action: Conduct a meeting to identify concrete steps for unification and modernisation of commercial law. Develop a business plan for the establishment of an economic law centre.

Partners:

3. Corporate Governance

The Palestinian Center for Private Sector Development (CPSD) has developed a corporate governance handbook that addresses key issues of corporate governance in the Palestinian context. The handbook describes current problems in CG and identifies appropriate restructuring requirements. Further efforts are required to develop a formal corporate governance code, building on the existing efforts by the CPSD, reflecting international best practices, and taking into account the work of the MENA Investment Working Group on Corporate Governance.

Action: A task force composed of relevant government and private sector bodies will be constituted for this purpose, with the support of the IFC. International organisations active in the area of CG are welcomed to provide input in this process and assist with implementation and dissemination of CG guidelines once developed.

Partners:

OMAN
(as of 6 March 2006)

I. The following targets have been selected as areas for action and review in 2006:

1. Foreign Ownership Restrictions

The Sultanate of Oman offers flexible ownership options to foreign investors. The percentage of ownership allowed in various sectors to foreigners is governed by Oman's commitment under the WTO agreements. The Omani investment laws permit 100 % foreign ownership in most of the sectors with few exceptions.

Action: OCIPED shall take necessary steps to improve the transparency and will provide the negative list of activities in which 100 % foreign ownership is not allowed in Oman on OCIPED's website.

As per the law, any person (Omani or non Omani) can take up to 10 % of the shares without any conditions. If the investor plans to hold between 10 and 25 % then they have to notify to the Capital Market Authority (CMA) and if they intend to hold more than 25 % then they should get the prior approval of the Capital Market Authority. It is important to note here that there is no difference between the investors whether they are Omani or foreigner. The different types of ownership options recognized in Oman by the Commercial Companies Law and the options available to foreign investors are also mentioned in OCIPED website (http://www.ociped.com/investments/pdf/set_owner.pdf). All business (local, foreign or mixed ownership) should have commercial registration, registration with the Chamber of Commerce & Industry and license from the Muscat Municipality/ Regional Municipality. Further certain specific activities (example education, health fisheries etc) would also require permission from the concerned ministries also. Environment protection is one of the top agenda of the Sultanate and therefore certain activities would have to adhere to the environment standards of the Sultanate and there are well-laid regulations and procedures (http://www.ociped.com/investments/pdf/set_othlicperm.pdf).

Action: OCIPED to coordinate with the CMA to improve the transparency in the regulations related to investment in the security market.

Partners:

2. OCIPED Strategy and Transparency

The Omani Centre for Investment Promotion and Export Development (OCIPED) is a government organization formed by a Royal Decree. The Centre aims at increasing private sector's contribution to investments required for the Sultanate's development plans. It also works on promoting Omani products exports to foreign countries to improve the balance of trade of the Sultanate.

Though investment and export are different activities, as Oman is a small market it is important any investment should look for a market beyond the geographical boundaries of the country. In this context

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there are lots of synergies between the two activities. OCIPED at operational level has clearly developed and articulated strategies and separate performance targets are created and reviewed on a continuous basis.

Action: OCIPED website to provide more information on the strategy and services offered to the clients for investment promotion and export development.

Partners:

The OCIPED's website (<http://www.ociped.com>) is well structured and provides a wealth of information of potential interest to investors. The website details procedures for establishing and running a business in Oman, as well as incentives, contacts and other relevant details.

The Section of the website dealing with foreign investment should not only outline the benefits of investing in Oman, but also specify some of the restrictions placed on foreign investors so as to provide greater transparency to the investment climate. The OCIPED's website, being a tool of critical importance to potential foreign investors, should ideally contain information about restrictions on foreign investment.

Action: OCIPED website to include the negative list for 100 % foreign investment and the limits for foreign ownership in certain sectors as per Oman's commitments under the WTO.

Partners:

3. Business Financing

'Soft loans' for businesses are available from the National Development Bank. These soft loans appear to be conditional upon Omani ownership of least 51 % of the project and a local employment of at least 35% of the staff. Currently, the government is reviewing the regulations related to the Soft Loan scheme.

Given the government's current emphasis on diversification away from the oil sector, measures to encourage business activities in other sectors by easing restrictions on financing should be considered. Conditions to financing should be evaluated in light of the government's strategy to decrease the dependency on the oil sector from 25.9% in 2000 to 9% by the year 2020.

This is particularly important in light of the fact that Omani stock and bond markets are not especially developed (refer to the following 2 items).

Action: OCIPED to coordinate with the concerned authorities with the aim to enhance the effectiveness of the current soft loan scheme.

Partners:

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The Omani bond market currently comprises of 18 bond issues, which illustrates the relative shallowness of the debt instruments market. This is a finding of considerable consequence since the loans from the National Development Bank are not available to all enterprises.

Action: Measures to deepen the bond market should be considered and potential constraints to its development evaluated. To coordinate with the concerned authorities on this suggestion.

Partners:

4. Stock Market Development

The Omani securities market is reasonably developed by regional standards. According to its own web site (<http://www.msm.gov.om>), Muscat Securities Market currently comprises of 140 companies. Since 1998 market downturn, MSM statistics shows that the % of foreign investors in the market remains small- as of may 2003, non- Omani held 15.6 % of the total investment in MSMs.

Investment in security market is to be made by anyone (Omani or foreigners) through the brokers registered with CMA. The government offers various incentives and this includes

- No tax on capitalist returns or profits.
- No restrictions on capital and profit transfers.
- No restrictions on exchange processes.
- The convertibility of the Omani Rial and fixed exchange rate with US\$.
- Law on corporate profit tax.
- Foreign investors can invest in the shares of listed companies or investment Funds without prior permission.
- There is independent regulatory and supervisory authority to organizing, monitoring, and supervising Muscat Securities Market to ensure the protection of investors.]

Action: Coordinate with concerned authorities and provide information to the MENA–OECD Investment Programme on the measures taken by them to increase foreign investment in the security market.

Partners:

II. Measures for review in 2007:

Tax Rate Transparency

Oman adapts its tax regime frequently to attract more foreign direct investment. For example, in September 2003, Oman amended its tax law and extended the national tax treatment to all Omani and GCC companies regardless of the percentage of foreign ownership. All these entities registered in Oman are taxed at a corporate tax rate of 12 percent. Taxes on branches of foreign-owned companies other than GCC remained at 30 percent. Oman now permits 100 percent foreign-ownership on a case-by-case basis with the approval of the Minister of Commerce and Industry. There is no personal income tax on Omani or foreign nationals. Entities carrying out certain activities are eligible for tax exemption (irrespective of percentage of foreign ownership).

Action: Provide a transparent overview of the current corporate taxation rates on the webpage of OCIPED. Assess the effectiveness of tax exemptions provided.

Partners:

Continuing Privatization Efforts

The Government strategy for economic development has been based on a series of five-year development plans. Relatively recently, the Omani Government has embarked on a policy of privatization and economic diversification with an emphasis on agriculture, fisheries, tourism, mining, light industry, petrochemicals and heavy industry. New laws and regulations were introduced to promote the diversification of the economy and the involvement of the private and foreign capital. An international conference, Economic Vision 2020, was held in June 1995, to outline Oman's developmental priorities. At this event, the Government has announced that the development effort of the next 25 years is expected to be characterized by a free and diversified economy with a vibrant private sector. In 2005 it was estimated that the private sector accounted for 12.6 % of the economy, and the oil sector for 25.9 %. By 2020 these two sectors are expected to be 10 % and 9 % respectively.

Each Five year plan of the Oman is based on realizing the Vision 2020 target and the development of major infrastructure and natural gas based projects are examples on the success of Oman is attracting private sector investments. The recently announced Seventh Five year Plan (2006-2010) also attached great importance to the privatisation process.

Action: To coordinate with the concerned authorities and to provide an updated progress report to the next meeting of the Steering Group of the MENA- OECD Investment Programme.

Partners:

BAHRAIN
(as of 5 March 2006)

I. The following targets have been selected as areas for action and review in 2006:

1. Assessment of sectoral barriers to foreign investment and ownership restrictions

Participants: Ministry of Commerce, Ministry of Industry, Chamber of Commerce & Industry, BMA, University of Bahrain, Civil Society, Ministry of Finance.

Leader: Civil Society (Transparency International)

This items deals with encouraging Bahrain's gradual opening of its domestic markets to investment by foreigners in service sectors, such as telecommunications and financial services. Currently, in compliance with the Bahrain Commercial Companies Law of 2001 (Legislative Decree No. 21/2001) Bahrain has established a 'negative list' approach, which specifically identifies activities which are not permitted for other than Bahrainis or 100% Bahraini owned companies. Currently Bahrain is preparing a new negative list which will be limited only to sectors considered strategic to protect Bahrain's domestic economy.

Action: Further reduction of the 'negative list' to sectors considered strategic to protect Bahrain's domestic economy/government is welcomed. Early publication of the negative list is encouraged.

Partners:

In Bahrain, GCC nationals have since 1999 been allowed to own up to 100 per cent of the listed shares of a Bahraini joint-stock company. The allowed percentage of ownership by non-GCC nationals is up to 49 per cent, but may be increased, subject to approval by special resolution from the Minister of Industry & Commerce. Also, non-GCC nationals may purchase, sell, or own up to 100 per cent of the shares in the Arab Banking Corporation, Investcorp Bank, the Bahrain Middle East Bank, Taib Bank, Shamil Islamic Bank and the Arab Insurance Group.

Action: It is recommended that the regulations relating to local ownership be reviewed in order to encourage foreign participation in the economy.

Partners:

2. Strengthen the role of the Economic Development Board and Bahrain business associations as key advocates for investment

Participants: Ministry of Finance, Ministry of Industry, Ministry of Commerce, Private Sector.

MENA-OECD Investment Programme

Leader: EDB

Presently, it is unclear whether a single comprehensive government strategy to increase investment at all levels has been articulated to relevant public and private entities.

It would be equally beneficial to publish more comprehensive and up-to-date information through the Economic Development Board on the incentives, investment laws, and investment opportunities. Presently, it appears that the internet webpage of the Economic Development Board can be utilized more effectively in this regard. To this end, the webpage should contain linkages to other relevant government organizations - including the Bahraini Ministry of Industry & Commerce - which contain most of the relevant legislation. This would greatly simplify the process for a potential investment.

Action: It would be beneficial to develop a public/private sector proactive strategy to advocate policy change by Government agencies to increase investment.

Partners:

3. Modernise tax treaty policies to include 2005 changes to the Model Tax Convention and extend tax treaty network with OECD member countries.

Participants: Stock Exchange, Ministry of Finance, Ministry of Commerce, Chamber of Commerce, Private sector

Leader: EDB & Ministry of Finance

Changes to national tax treaty policies in cross border pension and stock options and treatment of permanent establishments for next round of treaty negotiations should be reviewed.

Action: Bahrain has invited OECD member countries - to engage in full double taxation treaty negotiations with Bahrain as the MENA-OECD Investment Programme’s Working Group 3 is meant to provide a framework for exchange of experience and enhancing consensus amongst MENA and OECD countries on key provisions of double taxation treaties.

Partners:

4. Develop and adopt a corporate governance code

Participants: Private Sector, Civil Society, Chamber of Commerce & Industry, Ministry of Finance, Ministry of Industry, Ministry of Commerce, BMA

Leader: Private sector participant (Bankers Society)

The BMA & MOIC set up a joint committee in late 2004 to encourage the implementation of corporate governance rules for companies in Bahrain. The committee included members from the BMA and MOIC as well as the Bankers society and a number of individuals representing the private sector. So far, the committee has commissioned a consulting firm in Bahrain to survey companies (regardless of type and size) and provide observations and feedback for a corporate governance initiative in Bahrain.

Action: It is suggested that governance code for Bahrain is developed and implemented, based on OECD instruments, WG5 work as well as prior work in Bahrain. To this end, consultations with companies on the draft code should be carried out. Once such code is finalized, an awareness campaign could be launched.

Partners:

II. Reform measures for review in 2007:

Silent and Consent Approach

Whilst not yet finalised with all partners, it is understood that the Bahrain Investors Centre is seeking to exercise a Service Level Agreement with each of its Government Ministry partners to enable a silent and consent approach to licensing approvals. Each Government Ministry is proposed to establish a public target for responding to licensing applications, the public target to be re-enforced by a process of automatic approval if no response within the public target period. This approach is rather conducive to improving transparency of investment, and as such, is greatly encouraged.

Action: Further action on this item would be crucial in order to simplify the licensing procedure for potential investors as well as the involved government agencies.

Partners:

Create a Small and Medium Size Enterprise (SME) Support Umbrella Group

Participants: Ministry of Commerce, BMA, Ministry of Industry, Chamber of Commerce

Leader: EDB

Action: It is suggested that a feasibility study on role and cost of such a group, which would support small and medium size businesses, is conducted. This model should be based on prior work of UNIDO and Chamber of Commerce. Consultations with small and medium size enterprises on the functions of the group should be organized.

Partners: