

MENA-OECD Initiative on Investment for Development

Syllabus and Agenda for First Working Group 3 Meeting

Hosted by the Economic Development Board of Bahrain

“Providing a tax framework for investment and assessing incentives”

Venue: Bahrain, 26/01/2005 (starting at 15:00) to 27/01/2005 (finishing at 17:00)

Objectives

The broad objectives of this Working Group (WG 3), under the MENA/OECD Investment for Development Programme¹ are to review current tax policies and tax administration systems in MENA countries to assess their role in shaping direct investment flows and meeting tax revenues targets; consult with business, government officials and other international organisations to identify possible tax impediments to investment in the region, and to identify parallel efforts; elaborate best practices that could be expected to improve the investment climate; and develop with each participating country an action plan to strengthen the tax and investment environment. WG 3 will interact with other working groups, particularly WG 2 in addressing financial and regulatory incentives as well as with leading investors in the MENA region.

Background

A host country's tax regime is a key factor that may negatively or positively influence investment flows. A poorly designed tax system (consisting of laws, regulations and administration) may discourage capital investment where the rules and their application are imprecise or non-transparent, adding to uncertainty over the potential net profitability of investment. Imposing a tax burden that is high relative to the benefits received or relative to other competing locations may also discourage investment, particularly where profit margins are thin, with the host country tax burden determined not only by statutory tax provisions but also by compliance costs. Systems that leave excessive administrative discretion in the hands of tax officials in assigning tax relief tend to invite corruption and undermine good governance objectives key to securing an attractive investment environment. Tax policy-makers must therefore ensure that their tax system is one that is accessible, imposes an acceptable tax burden, reduces rather than contributes to project risk, and keeps compliance and administrative costs in check.

This working group meeting will focus on analysing tax systems in participating MENA countries (basic tax provisions, tax incentives, tax administration) with a view toward advancing policy changes to reduce tax impediments to direct investment, both foreign and domestic.

Second, it is anticipated that action plan elements arising out of the work of other MENA/OECD Working Groups (e.g. infra-structure development, skills development, adoption of programs countering corruption and strengthening public governance) will require

¹ An overview of the MENA/OECD Investment for Development Programme is provided in an addendum.

funding through additional tax revenues. Thus it will be necessary for WG 3 to consider modifications to tax systems consistent with projected revenue requirements.

Participants

Each MENA country with a tax system is invited to send experts who have responsibility for tax policy design and implementation. Other MENA countries with an interest in taxation and incentives are also invited to participate. Several OECD member country tax policy experts are also expected to join as well as representatives from the OECD secretariat. Business will be represented by the Business and Industry Advisory Committee to the OECD, as well as by regional business organisations.

Each participating MENA country with a tax system is kindly requested to prepare a country note (and send it to Susan Himes: shimes@emirates.net.ae by 15 January 2005) that identifies (1) tax obstacles to investment; and (2) tax incentives offered to investors. Such a note could usefully draw on studies that report on past experiences with the use of such incentives. Countries are encouraged to prepare a 5-10 minute presentation on their note to motivate a general discussion by the working group.

AGENDA

26 January 2005

14:00 Registration

15:00 I. Welcoming Remarks

- Opening remarks by a senior official of the Economic Development Board, Bahrain. (Mr. Abdullah Saif, Special Economic Advisor to the Prime Minister, and former Minister of Finance and National Economy, will address participants of the meeting on 27 January)
- Opening remarks by Mr. Rainer Geiger, Deputy Director, Directorate for Financial and Enterprise Affairs, Organisation for Economic Co-operation and Development (OECD)

15:15 II. Objectives of MENA Project and Working Group 3

Chair's Consolidated Report, presented by Dr. Zakaria Ahmed Hejres (Deputy CEO, Economic Development Board, Bahrain) addressing:

- Broad objectives of the MENA project
- General Focus/Terms of Reference for each Working Group
- Specific Terms of Reference for WG3
- Discussion and approval of terms of reference

Documentation for session II
Terms of Reference of WG3
Chair's Consolidated Report

16:00 III. An Overview of Issues relating to Taxation, Tax and Non-Tax Incentives and Foreign Direct Investment

Presentation by Dr. Steven Clark (Head, Horizontal Programmes Unit, OECD Centre for Tax Policy and Administration) addressing:

- Overview of OECD work on taxation
- Tax treaty and transfer pricing
- Tax policy analysis work (e.g., tax and non-tax determinants of FDI)
- Overview of tax project in South East Europe (SEE)

Chair (Dr. Zakaria Ahmed Hejres, Bahrain) and co-Chairs (Dr. Hosni Ibrahim Gad, Egypt, and Mr. Kemal Uzun, Turkey) will lead a discussion on main issues relating to taxation, incentives and FDI, with input sought from business, MENA officials, other participants.

*Documentation for session III**The OECD's Current Tax Agenda**Executive Summary of "Tax Policy Assessment and Design in Support of Direct Investment: A Study of Countries in South East Europe", OECD (2002)**Speaking Notes and PowerPoint presentation*

19:30 Welcome reception dinner

27 January 2005**9:00 IV. Presentations by MENA Countries on Recent Experiences**Presentations by MENA countries (*including Bahrain, Egypt, Morocco*) on:

- Tax and non-tax obstacles to investment
- Tax and non-tax incentives (practices, experiences)

10:30 Coffee

11:00 Chair and co-Chairs will lead a discussion on country experiences, main findings, areas where further input and analysis would be useful.

*Documentation for session IV:**PowerPoint presentations of participating MENA countries*

12:30 Lunch

14:00 V. Immediate and Future Work:

Presentation by Ms. Susan Himes (Consultant, OECD Centre for Tax Policy and Administration) on a draft proposed future work programme of WG3.

Chair and co-Chairs will lead a discussion on proposed elements of the future work programme of WG3, including:

- Tax questionnaire: key questions, assignment of responsibilities, timing
- Investor questionnaire: key questions, target investor groups, timing
- Key non-tax incentive questions/issues; modes of co-ordination with WG2
- Possible future workshops

*Documentation for session V:**Draft tax questionnaire**Draft investor questionnaire**Draft report on future work programme and PowerPoint presentation*

16:00 Coffee

16:30 VI. Conclusion and Next Steps

Summary of Meeting and Next Steps by Chair

- Summary of conclusions
- Reporting to WG2
- Reporting to Steering Group
- Arrangements for next meeting

Contact Persons

Host and MENA WG3 Chair: Dr. Zakaria Ahmed Hejres, Deputy CEO, Economic Development Board of Bahrain.

MENA and OECD WG3 Co-Chairs

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MENA-OECD Investment for Development Programme in Brief

The MENA-OECD Initiative on Investment and Governance for Development (GfID) represents an opportunity to promote broad reforms to enhance investment and development, strengthen interregional as well as international partnerships, and promote sustainable development throughout MENA countries. The process aims at strengthening countries' capacity for designing and implementing reforms. It enhances public governance and modernizes public institutions, provides an improved environment for economic activity and growth. Most importantly, it establishes a sustainable structure facilitating policy dialogue on public governance and investment policies among MENA countries.

The impetus for this Initiative comes from a widespread realization within the MENA region today that it stands at a critical juncture in its history. This realization is shared by both MENA governments and civil society institutions alike. It stems from the state of the MENA development and the obstacles that continue to hinder the achievement of the region's potentials.

Following several preparatory meetings with MENA partners, the Initiative has been organised into two programmes:

- *The Public Governance Programme:* aimed at modernising the government structures and processes in MENA countries
- *The Investment Programme:* aimed at improving the policies and environment for investment.

The MENA-OECD Investment Programme aims to support the on-going reform process by creating a regional network for policy dialogue and enhancing capacity for policy reform. It seeks to help efforts to mobilize investment, foreign, regional and domestic, as a driving force for growth, stability and prosperity throughout the MENA region. Successful implementation of the Programme is expected to make a substantive contribution to creating better conditions for economic growth and investment, helping create jobs, encouraging private initiative, promoting efficient, transparent and accountable public sectors and fostering regional co-operation.

The five regional Working Groups are key to implementing the Programme:

- Transparent and open investment policies (chair: Jordan; co-chair: Japan)
- Encouraging Investment Promotion Agencies and business associations to act as driving forces for economic reform (chair: Dubai; co-chair: to be determined)
- Providing a tax framework for investment and assessing incentives (chair: Bahrain; co-chair: Egypt, Turkey)
- Promoting policies for financial sector and enterprise development in support of economic/investment diversification (chair: Saudi Arabia; co-chair: UK)
- Improving corporate governance (chair: Lebanon; co-chair: to be determined)

Each Working Group has several MENA coordinators focusing on different strands of the policy priorities, and they are expected to nominate from within coordinators the Working Group co-chairs—one from MENA and the other from the OECD—to consult with other

members, establish the draft agenda, invite participants, interact with other external partners and act as the Working Group's speakers in the Steering Group. The Action Programme for the next three years will be developed using recommendations from the Working Groups.

A region-specific methodology for the Programme emphasizes ownership of reforms, business and civil society dialogue and strategic partnership with other regional and multilateral organizations. It is flexible enough to allow for amendment to suit different sets of MENA requirements and adopts a three-phase approach:

- diagnosis of current investment conditions in the countries of the region;
- development of country-specific policy recommendations and design of regional policy initiatives; and
- monitoring and assessing progress in policy implementation, improvement of the investment conditions and investment performance in MENA region.

The Programme will operate in a flexible and dynamic framework. Consequently, components of this work may need to be revised in the course of implementation.

For further details please consult www.oecd.org/daf/investment or contact Mehmet Ogutcu at mehmet.ogutcu@oecd.org.