

REPORT ON THE WG3 ACTIVITIES OF THE MENA-OECD INVESTMENT PROGRAMME:

ACHIEVEMENTS AND FUTURE WORK

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I. Introduction

1. This document describes the achievements to date on the activities of the Working Group 3 (WG3) of the MENA-OECD Investment Programme, *Tax policy for Investment*. It also presents possible deliverables of the working programme until the end of 2007.

II. Achievements to date

a) Initiating and strengthening tax policy analysis and dialogue at regional level

2. A *first preparatory meeting of WG3* was held 26-27 January 2005 in Bahrain, to identify priority areas of the tax project, and ways to integrate work on tax incentives with work on non-tax (financial and regulatory) incentives under review by Working Groups 1 and 2.¹ Discussions at the first meetings of Working Groups 1-3 resulted in the creation of a special *Task Force on Incentives*, which held its first meeting 29-30 June 2005, hosted by the Economic Development Board of Bahrain.

3. The main outcome of the meeting of the *Task Force on Incentives* was the drafting of a set of broad policy considerations in the use of investment incentives in the MENA region. A revised draft, incorporating additional comments received from MENA countries following the Task Force meeting, was discussed and endorsed at the second meeting of Working Group 3, held in Cairo 6-7 September 2005, attended by senior tax policy officials of the Ministries of Finance of Egypt, Jordan, Lebanon, Morocco, and Saudi Arabia. A number of MENA countries that do not have an income tax also participated, interested in following the discussions on tax policy development in the region, and monitoring the work on tax and non-tax incentives. The meeting was also attended by a number of officials from other ministries (e.g. economic development) and other MENA countries.

<i>2005 Meetings</i>	<i>Date</i>	<i>Venue</i>
<i>1st WG3 meeting</i>	26-27 January	Manama, Bahrain
<i>Steering Group meeting</i>	4 April	Paris, France
<i>Task Force on Incentives</i>	29-30 June	Economic Development Board, Manama, Bahrain
<i>2nd WG3 meeting</i>	6-7 September	Cairo, Egypt
<i>Steering Group meeting</i>	3 October	Istanbul, Turkey

¹ Working Group 1's focus is on *Transparent and open investment policies*, while Working Group 2 focuses on *Encouraging investment promotion agencies and business associations*.

<i>2006 Meetings</i>	<i>Date</i>	<i>Venue</i>
<i>Ministerial meeting</i>	13-14 February	Dead Sea, Jordan
<i>Steering Group meeting</i>	18 May	Cairo, Egypt
<i>Informal Steering Group meeting</i>	7 November	Istanbul, Turkey
<i>2007 Meetings</i>		
<i>Steering Group meeting</i>	28-29 March	Paris, France

4. In addition to endorsing the text on investment incentives considerations, the WG3 meeting in Cairo produced a set of draft tax policy recommendations to assist MENA countries in the development of national reform agendas (NIRAs) to tackle investment obstacles. These recommendations were also agreed during a *Steering Group meeting* in Istanbul, held October 2005, and condensed in the following two statements on principles of tax policy in the *Declaration on “Attracting Investment to MENA Countries – Common Principles and Good Practice”* at the Ministerial Meeting:

- Evaluation of current and proposed investment incentives;
- Transparent, stable and fair tax systems as important elements of the investment

5. The first year of the Programme concluded with a *Ministerial Meeting and Business Day* on 13-14 February 2006 in Amman (Jordan), which was attended by delegations of 16 MENA countries, represented by Ministers or high level officials from the relevant Ministries. The meeting concluded with a *Declaration on “Attracting Investment to MENA Countries – Common Principles and Good Practice”*, which was supported by all participating countries. Ministers also endorsed the recommendations and an ambitious programme for regional dialogue and capacity-building developed by the Working Groups (including WG3). The Ministers noted the National Investment Reform Agendas developed by MENA countries and encouraged their implementation.

6. The fourth Steering Group meeting was held in Paris on 28-29 March 2007. The discussions focused on directions for future activities of the Programme, presentations on progress in investment reform implementation in MENA countries and discussion on the second Ministerial Meeting of the Programme. The meeting was presided by H.E. Dr. Mahmoud Moheildin, Minister of Investment of Egypt and Mr. Graham Minter, the United Kingdom Co-Chair of the Programme. High level officials from 16 MENA countries participating in the Programme attended this meeting, as well as representatives of OECD countries’ delegation, international organisations and private sector representatives. Participants broadly agreed to recommend the extension of the Programme for an additional 3 years period, 2008-2010 (MENA II). This recommendation was approved by the OECD Council meeting on 10 May in Paris. Participants also stressed the importance to continue regional dialogue and peer-to-peer learning,

deepening the participation of some countries in the Programme for greater regional integration, and looking beyond the region for expertise and investment. Regarding the financial situation of the Programme, participants appealed to OECD and MENA countries to make financial commitments and agreed on the need to review the financial situation prior to the upcoming Ministerial Meeting.

b) National Process of Tax Policy Reform

<i>2006 Meetings</i>	<i>Date</i>	<i>Venue</i>
<i>Egypt NIRA workshop (recent tax reform initiative and international tax aspects of the reform package)</i>	17 May	Cairo, Egypt
<i>Jordan NIRA workshop (tax incentives)</i>	18-19 June	Amman, Jordan
<i>Morocco NIRA workshop (tax incentives)</i>	23-24 November	Rabat, Morocco
<i>2007 Meetings</i>		
<i>Lebanon NIRA workshop</i>	19 April	Beirut, Lebanon

7. In 2006, the Programme has focused on the development and implementation of the National Investment Reform Agendas (NIRAs). To date, the following 7 NIRAs including tax topics have been defined and national contact points to implement them appointed: Bahrain, Egypt, Jordan, Lebanon, Morocco, Tunisia and Yemen. Other countries' NIRAs are currently being discussed and should be finalised in the coming months: Iraq and Oman.

8. To date, NIRA workshops addressing tax issues have been conducted in 2006 in Egypt (17 May), Jordan (19 June) and Morocco (23-24 November) and in 2007 in Lebanon (19 April). These workshops feature high level participation (including at Ministerial level) of officials from investment promotion agencies and Ministries of Investment/Industry/Finance/Economy. They demonstrate measurable progress on several items and allow for development of new targets, as well as follow up with existing ones. For each of the NIRA workshops, background documents covering the issues discussed during the workshop have been prepared by the Secretariat. Further workshops are currently being planned in 2007 for Bahrain, Tunisia, Yemen and Iraq.

9. The *NIRA workshop in Egypt* (17 May) addressed Egypt's recent tax reform initiative and provide advice mainly on the international tax aspects of the reform package (introduction of legislation implementing residence-based taxation of foreign source income of corporations, and implementation of transfer pricing rules, and thin-capitalization rules).

10. The NIRA workshops in Amman and Rabat focused mainly on issues surrounding the use of tax incentives to attract investment. *The Jordan NIRA workshop* on Income Tax Policy and Tax Incentives was held on 18-19 June 2006 in Amman. During this meeting the OECD assisted the government in a) assessing its current system of corporate tax incentives, b) comparing alternative frameworks and methods for forecasting tax revenues, and c) providing guidance in fundamental reform of its income tax system. *The Moroccan NIRA workshop* (23-24 November 2006) focussed on assisting the government to identify the main problems on the design and evaluation of fiscal incentives to attract investment.

11. The NIRA workshop in Lebanon focused on the economic program of the Lebanese Government on the improvement of the fiscal system, discussing its effectiveness in comparison with fiscal reforms taking place in other countries in the region (e.g. Egypt) as well as in OECD ones. The impact of taxes on FDI, and, in particular, the effects of certain tax incentives was one of the topics discussed in this meeting.

c) Technical Training

12. In 2006 and 2007, MENA countries participated in training events organised by the OECD Centre for Tax Policy and Administration (CTPA). In 2006, an *Auditing Multinational Enterprises workshop* was held (2-5 July 2006) in Cairo, *Tax Treaties workshop* was held (29 October-2 November 2006) in Dubai, and *Tax Modelling workshop* was held (4-8 December 2006) in Ankara. The Auditing Multinational Enterprises workshop covered the following topics: a) Transfer pricing: benefits and complexity; b) Techniques for gathering information; c) Importance of Information Exchange. The Tax Treaties workshop was the first seminar of a joint UAE-OECD three-year co-operation on tax treaties. It focused on the negotiation of tax treaties and a detailed examination of tax treaty provisions using as guidelines the OECD Model Tax Convention on Income and on Capital. The main topics considered in the Tax Modelling workshop were: a) development of databases for micro-simulation analysis; b) Personal Income Tax modelling; c) Corporate Income Tax modelling; and d) VAT modelling. OECD countries providing instructors for these workshops were: Canada, the Czech Republic, the Netherlands, Turkey and the U.K; together with the OECD Secretariat.

13. In the Tax Treaties event, Kuwait and Oman expressed their interest in participating in the future WG3 meetings.

14. In 2007, a *Tax Incentives workshop* (12-16 March), a *Tax Modelling workshop* (2-6 April) and an *Auditing Multinational Enterprises workshop* (4-8 June) were held in Ankara.

<i>Workshops</i>	<i>Date / Venue</i>	<i>Participating MENA Countries</i>
<i>Auditing Multinational Enterprises workshop</i>	2-5 July 2006, Cairo (Egypt)	Egypt and Morocco
<i>Tax Treaties workshop</i>	29 October- 2 November 2006,	Bahrain, Egypt, Jordan, Kuwait, Lebanon, Libya, Morocco, Oman, Saudi Arabia,

	Dubai (UAE)	United Arab Emirates, Yemen
<i>Tax Modelling workshop</i>	4-8 December 2006, Ankara (Turkey)	Morocco, Saudi Arabia
<i>Tax Incentives workshop</i>	12-16 March 2007, Ankara (Turkey)	Morocco
<i>Tax Modelling workshop</i>	2-6 April 2007, Ankara (Turkey)	Egypt, Morocco
<i>Auditing Multinational Enterprises workshop</i>	4-8 June 2007, Ankara (Turkey)	Morocco

d) Regional Centres

15. The WG3 welcomes the support of Egypt with the creation of a MENA Regional Tax and Financial Management Training Centre in Cairo. An ambitious work programme has been developed already, which includes the following elements:

1. Tax policy roundtables for senior level officials (ADM) on specific topics to encourage policy dialogue and build and consolidate a regional tax network of senior policy-makers.
2. Workshops/Seminars to provide training and technical assistance in domestic and international tax issues, and guidance/oversight on how to disseminate the information (“training the trainers”).

16. Subject to funding, a roundtable event and four technical Seminars/Workshops a year (2/3 day events) are planning to be held on the Cairo centre.

17. Additionally, the Turkish Ministry of Finance has agreed the use of a training centre in Ankara (lectures and lodging facilities). This Centre strongly supports the participation of MENA countries on all multilateral tax events held in the Centre.

18. Bahrain has created a regional MENA Centre for Investment to disseminate best practices in areas related to investment reform and improvement of business climate for private sector development, including the use of tax and non-tax incentives.

III. Possible achievements towards end-2007

19. The next table lays out a preliminary meeting schedule for 2007. While the precise dates of some of these meetings are yet to be finalised, support by partner organisations have already been secured for a number of projects. Annex I summarizes country specific achievements on the WG3 activities.

<i>2007-08 Meetings</i>	<i>Date</i>	<i>Venue</i>
<i>a) Regional Process</i>		
<i>3rd WG3 meeting</i>	19-20 June 07	Cairo, Egypt
<i>Task Force on Incentives</i>	October 07 (tbc)	Bahrain
<i>MENA Tax Conference</i>	January 08 (tbc)	Libya
<i>Preparation for Ministerial Meeting (with WG2?)</i>	June 07 (tbc)	Cairo, Egypt
<i>Ministerial meeting</i>	27-28 November 07	Cairo, Egypt
<i>b) National Process</i>		
<i>Tunisia NIRA workshop</i>	(tbc)	Tunis, Tunisia
<i>Yemen NIRA workshop</i>	(tbc)	Sanaa, Yemen
<i>Iraq NIRA workshop</i>	(tbc)	Jordan
<i>c) Technical Training</i>		
<i>Tax Auditing of Small and Medium Sized Enterprises workshop</i>	17-21 September 07	Cairo, Egypt
<i>Tax Auditing of Small and Medium Sized Enterprises workshop</i>	19-23 November 07	Ankara, Turkey
<i>Application of Tax Treaties workshop</i>	26-30 November 07	Cairo, Egypt

20. Until the end of 2007, the main focus of the MENA-OECD Investment Programme will remain on implementation of National Investment Reform Agendas. A methodology and framework to be used to assess and monitor progress in tax policy reform, building on the works of the OECD and CTPA in the Policy Framework for Investment and the Investment Reform Index, will be proposed for endorsement at the next Ministerial Meeting in October 2007.

21. A draft report on Tax Incentives in the MENA region will be prepared by the Secretariat and presented at the WG3 meeting in June. This report will initially examine the use of tax incentives globally, including the MENA region, with the aim of examining the relationship between tax incentives and inbound FDI performance.

22. In collaboration with the International Tax and Investment Centre and the Libyan government organisation of a 3-day conference on International Tax Issues in the MENA region is planned. Dates and agenda will be finalised by end of summer 2007.

23. A specific work plan, complete with a meeting schedule, expected deliverables and outcomes for planned meetings has been developed for the MENA-Regional Tax and Financial Management Training Centre in Cairo. The planned training programme is subject to funding of this Centre.

Annex I – WG3 Activities: Achievements on National Level

Country	Status and Impact
Algeria	National Investment Reform Agenda being developed: - Revision of fiscal incentives for multinationals, small and medium enterprises and artisans
Bahrain	National Investment Reform Agenda developed and a workshop is planned for early 2007: - Modernise tax treaty policies to include 2005 changes to the Model Tax Convention and extend tax treaty network with OECD member countries.
Djibouti	National Investment Reform Agenda being developed
Egypt	National Investment Reform Agenda defined and NIRA workshop held in May 2006, progress in reaching investment targets being monitored: - Implementation of tax reform and streamlining of tax incentives: 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. 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. - Large taxpayers office established. - Project to establish MENA-Regional Tax and Financial Management Training Centre in Cairo
Iraq	National Investment Reform Agenda defined and activities will commence in 2007: - Tax incentive reform - Assistance on Designing Tax Legislation
Jordan	National Investment Reform Agenda defined and NIRA workshop held in June 2006: - The workshop provided a platform for announcement of a new investment law in Jordan containing a new tax incentive system and reforming the investment promotion institutions. The conclusions were taken into account by the Jordanian

	government in designing the new investment law, which was further commented by the OECD and submitted to the Parliament in September 2006
Kuwait	National Investment Reform Agenda being developed
Lebanon	National Investment Reform Agenda developed and workshop held in April 2007 - The workshop included a session on the economic program of the Lebanese Government for the improvement of the fiscal system, discussing its effectiveness in comparison with fiscal reforms taking place in other countries in the region (Egypt) as well as in OECD ones. The impact of taxes on FDI, and, in particular, the effects of certain tax incentives was one of the topics discussed in this meeting.
Libya	National Investment Reform Agenda being developed
Morocco	National Investment Reform Agenda developed and NIRA workshop held in November 2006: - The workshop reviewing the system of tax incentives - A follow-up programme of work based on recommendations resulting from this workshop is currently being reviewed by the Moroccan government.
Oman	National Investment Reform Agenda developed but not including taxation issues. Expressed interest in participating in WG3 activities during Tax Treaties workshop (2 Nov). - Proposed item: Provide a transparent overview of the current corporate taxation rates on the webpage of OCIPED. Assess the effectiveness of tax exemptions provided.
Qatar	National Investment Reform Agenda being developed - Enhance transparency and publicity on the applicability of the tax incentives offered by Qatar
Palestine National Authority	National Investment Reform Agenda being developed
Saudi Arabia	National Investment Reform Agenda being developed
Syria	National Investment Reform Agenda being developed: - Assessment of current Tax system for private enterprises: review the local administration surcharge, assess the feasibility of introducing a VAT system, assess the variation between taxation of the private and public sectors, assess the complexity of filing corporate taxes with a view to examine the feasibility to

	streamline, assess the efficacy of audits and other punitive measures with a view to minimise tax evasion
Tunisia	<p>National Investment Reform Agenda defined and currently being discussed with the Government of Tunisia:</p> <ul style="list-style-type: none"> - Assessment of current tax incentives and introduction of tax expenditure report. <p>A NIRA workshop has been likewise proposed to take place in February-March 2007</p>
Yemen	<p>National Investment Reform Agenda proposed to the Yemeni government:</p> <ul style="list-style-type: none"> - Revise the tax law and strengthen the tax auditing framework: high compliance costs (16 tax inspections annually) - A General Sales Tax (GST) has been set up and is being implemented progressively. - The Tax Administration is being restructured and a department for large tax payers has been established <p>A NIRA Workshop proposed to take place in 2007.</p>
United Arab Emirates	<p>National Investment Reform Agenda defined, and a NIRA workshop held in 21 December 2006.</p> <ul style="list-style-type: none"> - Proposed topic on assistance on the Value Added Tax introduction: workshops to facilitate exchange of information on effective introduction and centralisation of the VAT within a regional tax authority, leveraging existing best practices.