RE-THINKING INVESTMENT IN JORDAN

UK Government

Adam Smith International

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EXECUTIVE SUMMARY

The business environment has been one of the main focuses of this research, since it is closely linked to the investment climate, especially considering the fact that they equally affect Foreign Direct Investment (FDI) and Domestic Direct Investment (DDI). Although there is a new investment law in Jordan, many of the challenges facing existing and potential investors are related to registrations, business processes, bureaucracy, arbitration and legal procedures in Jordan. This can be clearly seen in Jordan's falling ratings in different business-related international indicators. Currently, there is no coherent economic strategy that deals with the investment climate alongside the business environment. Improving the business environment will improve the investment climate, since the business environment would itself serve as a stimulus for current and potential investments.

A coherent strategy encompassing measures dealing with both Jordan's investment policy and business climate should be developed and implemented. The difficulty in gaining access to information and the problem of the disaggregated information is a significant concern for investors too. Investors require accurate, detailed and up-to-date information with a high level of transparency; not having such level of information might increase their projected risks and deter them from investing in Jordan.

A very important and controversial issue was that of incentives and tax holidays provided to investors. In its current shape, these incentives and tax holidays are not a successful driver for investment in Jordan. The majority of sustainable, long-term investments don't need the current incentives and tax holidays in order to create revenues. The current tax holidays and incentives system need further studying by the Ministry of Finance and Jordan Investment Commission in order to create an efficient system than can serve on a long-term basis. Tax holidays and incentives should stem from well-defined criteria that include size, performance, benefit for the economy and community at large, knowledge transfer etc. and not merely the sector in which the economic activity operates under.

The topic of energy is one of the most talked about issues related to investment in Jordan. Reasonable energy costs are essential for maintaining competitive operational costs and Jordan's dependency on imported energy resources leaves it susceptible to high and unexpected price hikes. The fear of such fluctuations, as well as the already high energy costs, serve as major deterrents for potential and current investors and businesses. The energy sector must be considered a priority economic sector in the country, so that costs can start to be reduced and investments in this sector boosted. It is particularly important that the government look towards the potential benefits of shale oil and renewable energy, with special focus on solar and wind energy. Jordan must do more to upgrade and improve its infrastructure, whilst maintaining competitive operational costs in order to attract new investments and encourage existing ones to expand.

The new Investment Law of 2014 identified the ten priority sectors that benefit from incentives and tax holidays, but there is no concrete reasoning behind choosing of these ten sectors. Specifying certain sectors that will benefit from incentives and encourage investment imposes the perception that there are limitations on other sectors, and drives away many potential investments. Rethinking the incentives and tax holidays policy, with a view to opening the investment in all economic sectors, will have a direct impact on investment in the country, making it easier to attract new, diverse investments.

Access to credit is one of the main challenges facing businesses in Jordan, especially MSMEs. Facilitating access to credit would play a crucial role in increasing the size of investments and creating more job opportunities. Current efforts by the Central Bank of Jordan and the Ministry of Finance to increase access to credit, especially to MSMEs, should be expanded and boosted, particularly considering that MSMEs, generally, cannot develop and grow without supportive governmental policies.

Another aspect that is very important to most investors is human capital, and Jordan's human capital could constitute one of the drivers that may encourage potential investors to come to Jordan. Providing skilled labour plays a major role in attracting investors; this requires efforts at the level of educational institutions (universities and VTCs) and at the level of educating people regarding the importance/opportunities related to skilled labour and craftsmanship, in addition to providing more incentives to Jordanians to enter this sector of the labour market. Re-considering what's offered by universities, especially in the economic sectors with the highest labour demand, is one of the issues that need further study and efforts by involved institutions. Female participation in economic sectors should be supported too in order to increase the overall business efficiency.

From 2000, Jordan has been heavily reliant on "Zones" to mainstream investment in Jordan. The most prominent features of these zones are tax incentives, and to a lesser extent, a facilitated administrative procedure. Such "special treatment" was supposed to attract investors and increase Jordan's share of global FDI. Furthermore, these policies were supposed to create jobs, establish a positive balance of payments, transfer technology, capital, and skills, increase competition and economic growth, and eventually act as a model for national economic reform. The feasibility of these measures to the Jordanian economy has been disputed over the past decade. The issue arises from the size of the spillover or "leakages" from these zones to the local communities and thus the economy, and the way in which they are constructed as enclaves that are, to a large extent, separate from the economy. Jordan has three types of zones; Industrial Estates, Free Zones and Special Economic Zones. Although these zones have succeeded in attracting relatively large amounts of FDI, the issue of establishing backward linkages with the local economy remains a disputed issue, particularly since most of the raw materials used in these industries, and more specifically in the textile and apparels industries, are imported and not locally manufactured.

A very obvious challenge facing investment in Jordan is the institutional culture and social context, which is not as developed as Jordan's vision regarding investment. Favouritism, bureaucracy and negative attitudes of officials, in addition to the unclear measures in approving investments, especially when related to the Council of Ministers and/or the Ministry of Interior, drives many investors away. These attitudes need to be addressed urgently through intensive awareness raising efforts conducted by all stakeholders on the institutional and social levels. On some levels, social factors play a role in driving away or freezing investments; the government and relevant institutions should reconsider how to overcome social barriers through awareness raising and looking at the experiences of other countries in this regard.

INTRODUCTION

1.1 Purpose of the Study

The Hashemite Kingdom of Jordan has been on the path of gradual liberalisation and economic reform for decades, a path that was accelerated by King Abdullah II's accession to the throne. Economic Reform has been at the top of the government's agenda in the years following the Arab Spring. Jordan finds itself under great pressure to increase economic growth, create sustainable employment and transform its economy into a knowledge-based one. As such, the country stands to gain significantly from attracting Foreign Direct Investment (FDI) and promoting Domestic Direct Investment (DDI).

During the past two decades, investment in Jordan, especially FDI, is one of the main areas through which the government intends to boost the economy. There have been a lot of efforts that aim to boost investments in the country, and by extension, the economy at large. This research paper studied these legal, procedural and administrative efforts to shed some light on the issue and attempt to identify where the problems and possible solutions lie.

The government recently expanded its efforts dramatically to encourage investment and boost the economy. These efforts are represented in the new Investment Law of 2014, the tax law, in addition to other endeavors related to providing greater access to credit for MSMEs, and by providing greater investment incentives to specific priority sectors identified by the new Investment law and the Jordan 2025 vision. However, these reforms, while significant in their own right, still fall short of structural reforms that are still urgently required to bolster Jordan's ailing business environment and increase its regional and international competitiveness.

1.2 Structure

This paper first provides an overview of the state of the Jordanian economy in recent years. It then moves to explore factors pertaining directly to the country's overall business environment and international rankings, before providing an assessment of the policies and regulations that have been adopted by the government in an effort to bolster investment and enhance Jordan's international competitiveness. The analysis used in the report is based on available information and statistics, in addition to desk review, interviews and focus groups discussions. The report ends by providing a conclusion about investment in Jordan.

1.3 Methodology

In order to achieve the best possible product/result, the following methodology was followed in conducting this research:

A desk review of Jordan's 2025 vision, the Investment Law of 2015 and available literature on the topic (other researches and topics) was conducted in order to present the theoretical framework for the research and to assess the strengths and weaknesses of the current situation of Jordan's investment climate. Additional resources (especially statistics) included collecting data from the Department of Statistics, Central Bank of Jordan, Jordan Investment Commission, the World Bank and other formal institutions. This information was gathered from each institution, through available public resources and establishing contacts and interviews, and was then collated and analysed according to its relevance to the research.

Other tools included interviews with relevant institutions to get their views and vision in relation to the topic. Focus group meetings with experts and relevant public and private institutions were organised to present the challenges/problems and initial proposed solutions, and get the participants feedback on the material, in addition to acquiring their opinions about the issue.

After finalising the research steps, three launching events were held in Amman, Irbid and Aqaba with the participation of the relevant people (institutions, investors and researchers). These events provided an opportunity to present a summarised version of the findings and discuss them with the participants.

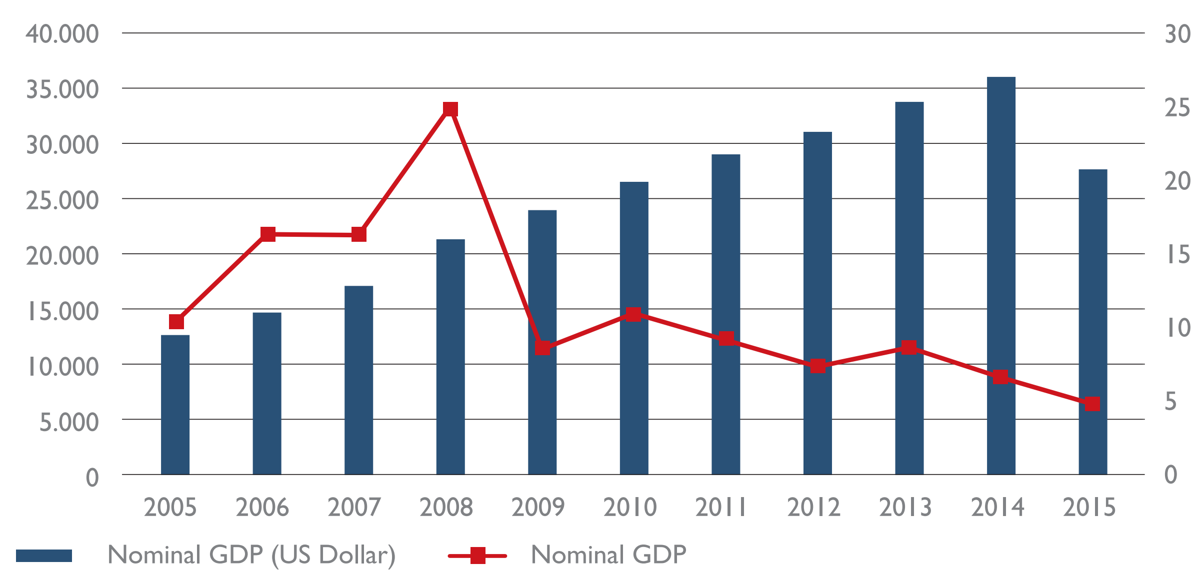
The final stage of the research was the compilation of all the findings into the final document, which was reviewed by the research team and other independent researchers and experts in order to insure the maximum level of objectivity.

OVERVIEW

The growth of Jordan's economy during the 21st century has been very unsteady and fluctuating. A rapidly growing population, a volatile regional context and slow government reform are indications that economic growth will be sluggish in the coming years.

Jordan managed to secure an average semi-steady rate of growth in the first decade of the 21st century (on average about 6.5%), facilitated by its comparatively open economy. According to the latest public official numbers, Jordan's nominal GDP reached $27,611[1] billion by the end of the third quarter of 2015, with a nominal growth rate of 4.8% and a real growth rate of 2.3%. In the longer term, Jordan's GDP increased from $12.878 billion in 2005 to $35.927 billion in 2014. The World Bank real GDP growth forecast for 2016 is higher at 3.7%, which is partly driven by lower oil prices globally, in addition to expectations of investment projects materialising in the short and medium terms[2]. Nevertheless, issues such as the regional context, high levels of unemployment, dependency on foreign aid, and the lack of natural resources still constitute serious challenges to the economy.

Nominal GDP 2005 - 2015



Source: Monthly General Government Finance Bulletin[3]

1- General Public Finance Bulletin – December 2015 http://www.mof.gov.jo/Portals/0/Mof_content/%D8%A7%D9%84%D9%86%D8%B4%D8%B1%D8%A7%D8%AA%20%D9%88%D8%A7%D9%84%D8%A8%D9%8A%D8%A7%D9%86%D8%A7%D8%AA%20%D8%A7%D9%84%D9%85%D8%A7%D9%84%D9%8-A%D8%A9/%D9%86%D8%B4%D8%B1%D8%A9%20%D9%85%D8%A7%D9%84%D9%8A%D8%A9%20%D8%A7%D9%84%D8%AD%D9%83%D9%88%D9%85%D8%A9/2015/Arabic%20PDF%20December%202015.pdf
2- International Monetary Fund, Jordan Seventh and Final Review Under the Stand-by Arrangement and Proposal For Post-program Monitoring - Press Release; Staff Report; And Statement By the Executive Director for Jordan (Washington DC: IMF 2015).
3- Hashemite Kingdom of Jordan - Ministry of Finance, Archive of General Government Bulletins (Jordan: 2013).).

The IMF projections regarding the GDP growth of Jordan are shown in the following table:

	2013	2014	2015	2016	2017	2018	2019	2020
Nominal GDP at market prices (JD millions)	23,852	25,437	27,091	28,992	31,069	33,278	35,645	38,181

We see that the IMF projections show a semi-steady increase in the GDP of Jordan from 2013 to 2020. When we compare the actual GDP from 2013 and 2014 to the projections of the IMF we find a clear discrepancy. However, the 2015 actual GDP is near to the projections and if we take the forecasted inflation rate of 2016 into consideration, the GDP projection for 2016 may be near to the real number too. It is clear that projections and expectations in Jordan are far from accurate, when comparing the same projections in other countries. This may be related to the regional context and to the tight fiscal policy of the country and the unstable legal environment of major economic laws[4].

Net outstanding public debt (domestic and external) increased by the end of November 2015 and increased by $2,983 million or 10.2% from the same period in 2014 by to reach $32,225 or 84.1% of the projected GDP for 2015, compared to 80.8% in 2014[5] .Among the reasons behind the increased indebtedness is the disruption of Egyptian gas exported to Jordan, and the reliance on fossil fuel to generate electricity, which led to an increase in losses incurred by the state-owned National Electric Power Company (NEPCO)[6]. After significant attempts to reduce public debt between the years 2000 and 2008, it has risen sharply in the past few years (equaling 80.1% of GDP in 2013 compared with 56.7% in 2008)[7].

Fiscal policy has, at times, had a negative impact on Jordan's macroeconomic stability and been costly for growth. Factors which, have negatively impacted the efficacy of Jordan's fiscal policies, include their overly pro-cyclical nature – when it should be countercyclical –which is problematic for a country like Jordan that is so vulnerable to exogenous shocks[8]. Furthermore, Jordan's overreliance on foreign grants and aid – $2,520 billion was committed to Jordan by donors and international financing institutions for the period of January to November 2015 – has undermined fiscal discipline in the country; in 2015, the government did not receive the Qatari share of the GCC grant to Jordan, which caused the budget deficit to increase by $564 million.[9]

Nonetheless, the government is still dependent on its main revenue generation tool (increasing taxes), and at the same time there are no cuts in the government's expenditure, for example employment in the public sector is still growing at a rate higher than private sector employment, in spite of a decision made in 2010 to freeze public sector hiring except for the Ministries of Education, Health and Social Development.[10]

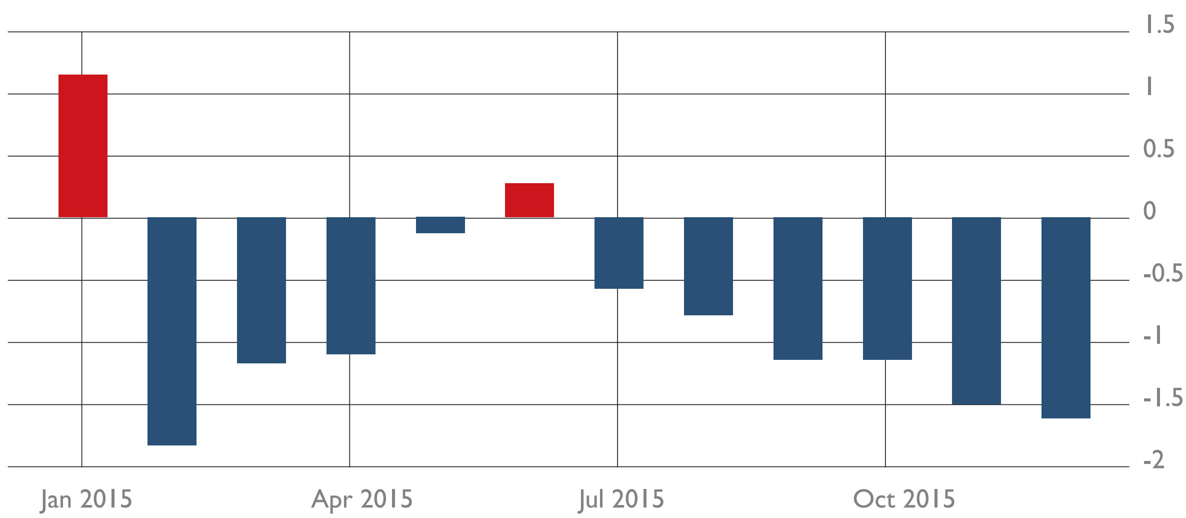
Domestic public borrowing is also a significant characteristic of the Jordanian economy. In November 2015 net domestic debt had reached $19,169 billion, compared to $13,055 billion in external debt.[11]

4- International Monetary Fund, Jordan Seventh and Final Review Under the Stand-by Arrangement and Proposal For Post-program Monitoring - Press Release; Staff Report; And Statement By the Executive Director for Jordan (Washington DC: IMF 2015).
5- http://www.mof.gov.jo/Portals/0/Mof_content/%D8%A7%D9%84%D9%86%D8%B4%D8%B1%D8%A7%D8%AA%20 mof.gov.jo/Portals/0/Mof_content/%D8%A7%D9%84%D9%86%D8%B4%D8%B1%D8%A7%D8%AA%20%D9%88%D8%A7%D9%84%D8%A8%D9%8A%D8%A7%D9%86%D8%A7%D8%AA%20%D8%A7%D9%84%D9%85%D8%A7%D9%84%D9%8A%D8%A9/%D9%86%D8%B4%D8%B1%D8%A9%20%D9%85%D8%A7%D9%84%D9%8A%D8%A9%20%D8%A7%D9%84%D8%AD%D9%83%D9%88%D9%85%D8%A9/2015/Arabic%20PDF%20December%202015.pdf
6- Identity Center, Energy Sector in Jordan 1 Gas & Electricity (Jordan: Jordan Independent Economy Watch 2015).
7- http://www.mof.gov.jo/Portals/0/Mof_content/%D8%A7%D9%84%D9%86%D8%B4%D8%B1%D8%A7%D8%AA%20%D9%88%D8%A7%D9%84%D8%A8%D9%8A%D8%A7%D9%86%D8%A7%D8%AA%20%D8%A7%D9%84%D9%85%D8%A7%D9%84%D9%8A%D8%A9/%D9%86%D8%B4%D8%B1%D8%A9%20%D8%A7%D9%84%D8%AF%D9%8A%D9%86%20%D8%A7%D9%84%D8%B9%D8%A7%D9%85/2014/Public_Debt_Bulletin_%202014_04_Ar.pdf
8- The pro-cyclical nature of the economy is when the government's spending moves in tandem with the business cycle, which contradicts with accepted thinking and best practices. For more elaboration see: Yusuf Mansour; Why the Economy Grows; Jordan Times, 2014.
9- http://www.alghad.com/articles/907467-%D9%85%D9%84%D8%AD%D8%B3-8-5-%D9%85%D9%84%D9%8A%D8%A7%D8%B1%D8%AF%D9%8A%D9%86%D8%A7%D8%B1-%D9%86%D9%81%D9%82%D8%A7%D8%AA-%D8%A7%D9%84%D9%85%D9%88%D8%A7%D8%B2%D9%86%D8%A9
10- http://www.ammonnews.net/article.aspx?articleno=134627
11- http://www.mof.gov.jo/Portals/0/Mof_content/%D8%A7%D9%84%D9%86%D8%B4%D8%B1%D8%A7%D8%AA%20%D9%88%D8%A7%D9%84%D8%A8%D9%8A%D8%A7%D9%86%D8%A7%D8%AA%20%D8%A7%D9%84%D9%85%D8%A7%D9%84%D9%8A%D8%A9/%D9%86%D8%B4%D8%B1%D8%A9%20%D8%A7%D9%84%D8%AF%D9%8A%D9%86%20%D8%A7%D9%84%D8%B9%D8%A7%D9%85/2014/Public_Debt_Bulletin_%202014_04_Ar.pdf

The implication of this excessive domestic borrowing lies in the fact that interest rates for domestic borrowing are usually higher. Between 2000 and 2015 the prime lending rate averaged around 8.25%, which is not an attractive figure for private sector actors[12]. Also, high domestic borrowing creates a crowding out effect, with the government absorbing the lending capacity of banks and financial institutions, and thus raising the interest rates for borrowing/credit. This discourages the private sector from engaging in any capital related activities.

The inflation rate in Jordan increased by 2.8% in 2014, and was recorded at -1.2% in October 2015. The 2016 Budget has predicted an inflation rate of 3.1%, reaching 3.3% in 2020. Despite predictions of economic growth during 2016, the rate of inflation still recorded -1.1% during January 2016. Some spectators question the government's logic in reaching this figure considering that the majority of international forecasts propose a negative (or close to it) rate of inflation.[13] The following chart shows the inflation rate trends in 2015; the connection to the fall in oil prices is clear, making it hard to measure the accuracy of the predicted inflation for 2016. This raises the issue of energy in the country and its direct and big effect on inflation, GDP and the economy in general.

Jordan Inflation Rate



Trade: In 2014 Jordan had a trade deficit in goods of US$14.4 billion, with exports reaching US$8.4 billion and imports of US$22.7 billion[14]. On the other hand, Jordan had a surplus in trade in services, in addition to remittances from Jordanians working abroad, which reduced the deficit in the balance-of-payments to US$2.4 billion. Jordan's trade flows are characterized by consistent trade deficits in addition to regular fluctuations and little predictability.

In recent years, Jordan has made efforts to increase its network of Free Trade Agreements (FTAs). Significant FTAs include the agreement with the US that was signed in 2000, as well as the EU's Association Agreement with Jordan that came into force in 2002[15,16]. The latter already established a Free Trade Area between the EU and Jordan in line with World Trade Organization regulations. More recently, Jordan has signed FTAs with Turkey and Canada, which came into force in 2011 and 2012 respectively.[17,18]

12- Central Bank of Jordan, Money and Banking Tables (Jordan: CBJ 2010).
13- Venture Magazine, Budget 2016: The Numbers Don't Add Up (Jordan: 2015).
14- GlobalEDGE, Jordan: Trade Statistics (Jordan: GlobalEDGE 2014).
15- Momani, Bessma (2007), 'A Middle East Free Trade Area: Economic Interdependence and Peace Considered', (The World Economy: 2016).
16 - European Commission, Trade Jordan (EC 2015).
17 - United Nations UNCTAD, Free Trade Agreement between Jordan and Turkey (UN UNCTAD Investment Policy Hub 2015).
18 - Government of Canada, Canada-Jordan Free Trade Agreement (Canada: Agriculture and Agri-Food Canada 2012).

Jordan's main exports include textiles, potassium, phosphates, fertilizers, vegetables and pharmaceutical products[19]. Jordan's imports are led by petroleum, both refined and crude[20]. Other significant imports include machines, metals, cars and others, many of which are necessary inputs for production[21]. In order to reap the optimum rewards from opening international trade and signing FTAs, a country like Jordan must have a strategy to improve its competitiveness. The following section will show that Jordan has not done enough to increase the competitiveness of its business environment.

19- GlobalEDGE, Jordan: Trade Statistics (Jordan: GlobalEDGE 2014).
20- Observatory of Economic Complexity, What does Jordan import? (2013) (OEC 2013).
21- Observatory of Economic Complexity, Jordan (OEC 2013).

EVALUATING INVESTMENT POLICY AND OUTCOMES

Overview of Investment in Jordan

According to the Department of Statistics (DOS), the total value of investments that applied to Jordan Investment Commission (JIC) to benefit from the investment law between 2005 and 2013 are as shown in the following table. (The numbers are in Million JD).

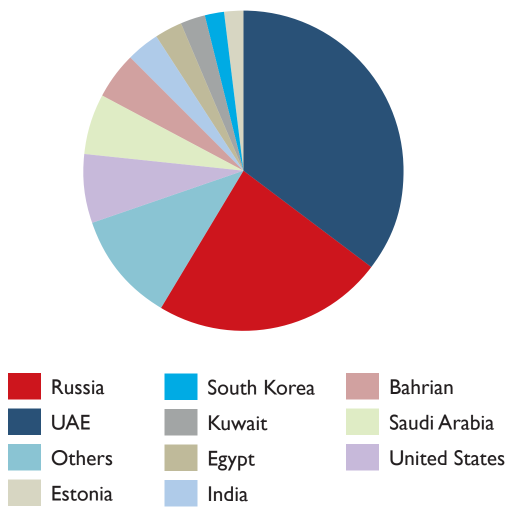
Total of DDI		Total of FDI		Overall total	
Year	Value	Year	Value	Year	Value
2005	473.7	2005	276.3	2005	750.0
2006	988.0	2006	845.6	2006	1,833.6
2007	1,171.4	2007	1,049.6	2007	2,221.0
2008	1,374.4	2008	560.4	2008	1,934.8
2009	1,114.1	2009	706.9	2009	1,821.1
2010	1,436.5	2010	224.0	2010	1,660.5
2011	728.4	2011	294.6	2011	1,023.0
2012	796.7	2012	817.6	2012	1,614.3
2013	797.0	2013	1,132.6	2013	1,929.6

Source: DOS[22]

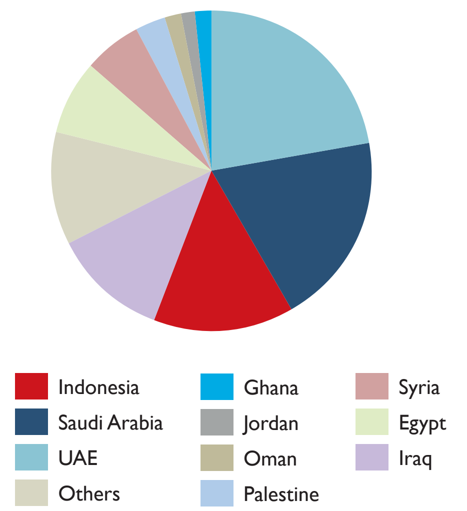
Looking at the above table, we will see that in the years between 2005 and 2011 DDIs were greater in value than FDIs, which is the typical scenario in most economies; but in the years 2012 and 2013, the value of FDIs exceeded the value of DDIs. According to a report published by the Arab Investment & Export Credit Guarantee Corporation (IAIGC), Jordanian investments outside of Jordan between 2003 and 2015 reached 4.3 billion USD; most of these are in UAE, Saudi Arabia and Indonesia[23], with big increases in recent years.

22- http://jorinfo.dos.gov.jo/View_ind/
23- The Arab Investment & Export Credit Guarantee Corporation, Investment Climate in Arab Countries Dhaman Investment Attractiveness Index 2015 (Kuwait: 2015).

Top Countries investing in Jordan Between Jan 2003 & May 2015



Top Countries Receiving Investment from Jordan Between Jan 2003 & May 2015



Source: IAIGC

These numbers clearly show that Jordanian investors are seeking other countries in which to invest. This suggests that the government's focus on increasing investments in Jordan is not achieving progress on the level of DDIs, which may be linked to a lack of competitiveness.

As for FDIs, we can see that the value increased significantly in 2006 and 2007, but then fell again; the increase after 2011 may be associated with the regional context, and the fall in the values of investments in Egypt and Syria in the years following 2011, leaving investors, who are interested in the region, with one choice, which is Jordan; this suggests that the increase in FDIs over the past few years is associated with factors that are not connected to Jordan's investment climate.

FDI:

	2014	2015	2016	2017	2018	2019	2020
Direct foreign investment	1,680	1,581	1,850	2,143	2,501	2,928	3,136

The above table shows IMF projections for FDIs in Jordan between 2013 and 2020; the projections are higher than actual values of 2014 and 2015, which can be interpreted by the lost opportunities of investors who were interested in Jordan but lost interest either because of the regional context or because of other factors related to the business environment, bureaucracy or the legal environment in the country. For the remaining years, the IMF projections show semi-steady and significant increases in FDIs, but if we applied the same case of 2014 and 2015, these numbers might not be close to reality.[24]

Looking at all the available figures, we will see that there is no systematic way of aniticipating values of investment in Jordan (DDIs and FDIs alike). This is directly related to the regional context, the unstable legal environment in the country, an uneasy business environment, the lost opportunities of FDIs and the migration of DDIs to other countries, all of which can be seen as giving rise to this situation.

24 - International Monetary Fund, Jordan Seventh and Final Review Under the Stand-by Arrangement and Proposal For Post-program Monitoring - Press Release; Staff Report; And Statement By the Executive Director for Jordan (Washington DC: IMF 2015)

The 2014 Investment Law

The government issued a new investment law in 2014 with the aim of boosting the economy through greater investment, leading to the creation of jobs in Jordan. The new Investment Law was enacted on 26th October 2014 and sought to address many of the factors hindering the investment climate in Jordan.

The new law consolidates much of the existing legislation on investment; it facilitates residency applications for investors and their families. The law also continues to allow foreign investors the opportunity to start businesses inside free zones and development zones without needing a Jordanian partner or requiring a minimum amount capital. Under the new law, investors can freely transfer their profits; in addition to that, the law provides more articles in relation to arbitration. However, the new law contains only a single clause that refers to disputes between foreign investors and the Jordanian government.[25] The lack of clarity within the new law regarding the legal rights of foreigners when it comes to disputes is one area that could deter potential foreign investment and therefore must be dealt with in greater detail in the by-laws that are currently being drafted.
The new law identifies ten priority sectors that are to receive incentives and tax reliefs, in addition to giving the Council of Ministers the authority to grant tax reliefs to other sectors on a case-by-case basis. In addition to this, the JIC has chosen the agriculture, energy, ICT-BPO, industry, medical and tourism sectors to actively promote internally and externally in order to attract investment into these sectors.

One key initiative of the new law was the consolidation of the remit of the Jordan Investment Commission (JIC), which is now the sole body responsible for encouraging investment in Jordan. The JIC is the result of the merging of several other entities including the Jordan Investment Board, Development and Free Zones Commission and Jordan Export Development & Commercial Centres Corporation (JEDCO). The JIC itself is headed by the Investment Council, under the chairmanship of the prime minister, and boasts members including several government ministers, the chairmen of relevant bodies and private sector representatives. The Commission's aim is to enhance the incentives for potential investors in Jordan and provide a single, transparent access point for investors without extensive bureaucracy. The JIC's role is extensive, but its main tasks include tailoring specific geographical locations to sector-specific needs, disseminating analyses of investment opportunities, providing investors with the Investment Window and promoting Jordanian exports on the world stage.

The Investment Window is one of the most distinct features of the new law. It replaces the One Stop Shop (OSS) as the latest attempt to streamline the process of setting up an investment in Jordan. In theory, it aimed to combat one of the most significant deterrents to investment, namely the time cost of registering a new business. Many functions of the Investment Window have been adopted from the OSS Service, such as registering and licensing projects, issuing import and export licenses and issuing visas and residency permits for investors. To date, there is no evidence that this initiative has been successful in reducing the time or administrative cost of registration.

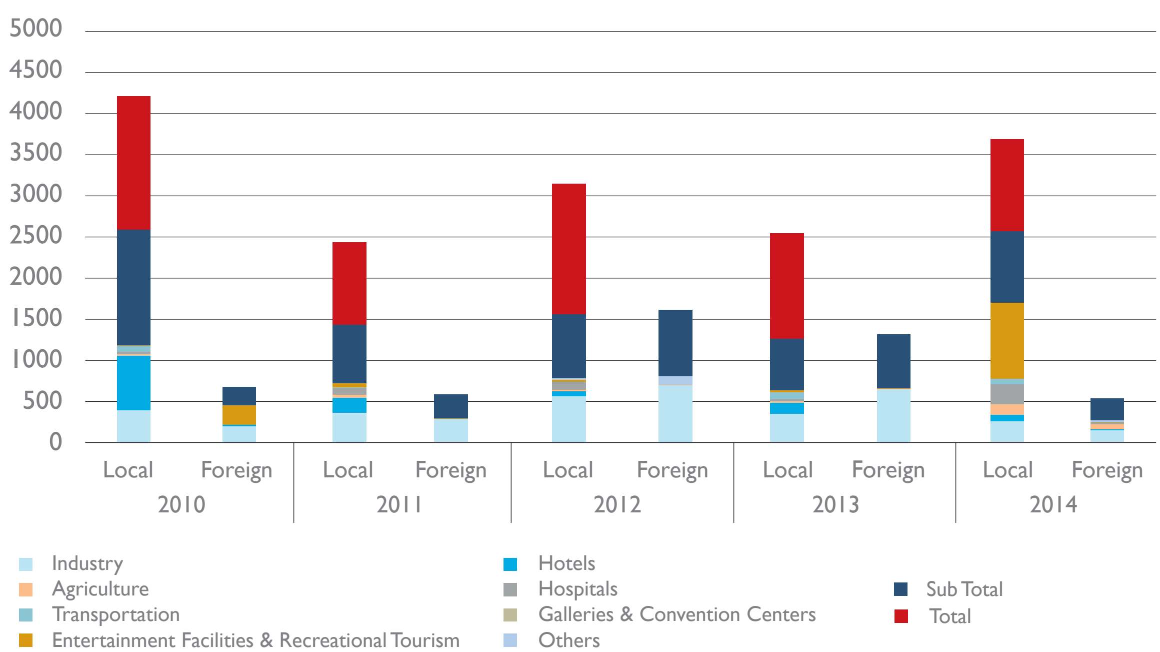
There are ten sectors that the new Investment Law targets for favourable tax and customs rates, wherever they are based in the country. The sectors are: Agriculture and livestock, hospitals and specialised medical centers, hotels and tourist facilities, entertainment and tourist recreation facilities, call centers, scientific research centers and scientific laboratories, artistic and media production, conference and exhibition centers, transport and/or distribution and/or extraction of water, gas and

25- Jordan Investment Commission, Investment Law No. 30 for the Year 2014 (Jordan: 2014).

oil derivatives by using pipelines, and air transport, sea transport and railways; ICT and green energy were also added as priority sectors. The benefits afforded to investors in these sectors are considerable, including (but not limited to) exemptions from fees and taxes on fixed assets and imported spare parts and even modernisation requirements in the case of hotels and hospitals. The following table and graph show the actual values of investments in these sectors according to JIC's numbers.

The Size of Investments Benifiting from Investment Law by Sector 2010 - 2014 (Million JD)										
Year	2010		2011		2012		2013		2014	
Sector	Local	Foreign	Local	Foreign	Local	Foreign	Local	Foreign	Local	Foreign
Industry	369.7	195.1	358.7	287.6	565.6	703.8	348.9	653.3	258.1	148.5
Hotels	673.5	16.5	188.8	2.5	64.5	0	138.8	3.5	79.5	15.3
Agriculture	21.1	2.5	40.6	0.8	16.7	7.9	16.1	3.4	130.8	5.62
Hospitals	29.7	0	81.7	0	99.5	0	30	3.9	252.3	18.2
Transportation	71	0	1	0	4	0	82	0	61.8	0.3
Galleries & Covention Centers	0	0	10	0	0.5	0	1	0	0	0
Entertainment Facilities & Recreational Tourism	10	244.2	47.4	3.5	24.7	0.8	24	3.4	946.3	5
Others	0	0	0	0	21	105	0	0	0.05	25.3
Sub Total	1436.5	224.1	728.5	297.5	796.7	817.5	641.3	667.6	887.4	269
Total	1660.6		1023		1614.3		1308.9		1146.5	

The size of investments benefiting from investment law by sector 2010 - 2014 (Million JD)



The new Jordanian Investment Law affords equal treatment to both Jordanian and non-Jordanian investors and places no restrictions on the level of foreign ownership, except in a limited number of economic activities, where a Jordanian partner is required. Additionally, the Investment Council also decided to allow non-Jordanians to have ownership in land transport (which had previously been prohibited) provided their share does not exceed 49%. The OECD recommended that the new investment law should lift some of the restrictions on foreign investment that are usually permitted in other countries, such as wholesale and trade and construction.[26] FDI restrictions are potentially negative in a country like Jordan with poor infrastructure, which could benefit from investment in sectors such as transport, from which foreign investors are restricted.

The 2015 Tax Law

A new tax law came into force on January, 2015, which introduces a new income tax bracket and includes increases in the level of corporate income tax.[27] The corporate income tax within the industrial sector remained unchanged at 14% and for the main telecommunication companies, insurance companies, brokerage firms and financial companies the rate remained at 24%, but all other sectors witnessed increased levels of payable income tax.

Income tax payable by the banking sector rose from 30% to 35% and from 14% to 24% for those companies that generate/distribute electricity or mine raw materials. The corporate income tax rate for all other companies increased from 14% to 20% under the new tax law.

Tax law in Jordan changes almost annually, which can act as a deterrent to investors since the absence of continuity destabilizes planning horizons. Furthermore, Jordan has raised corporate taxes in most sectors, during a period that has witnessed little growth, which could potentially signal a deeper recession in the country.

However, two of the key sectors that have been highlighted by the government as key investment sectors, ICT and renewable energy, are missing from this list of key sectors within the new law and it is unclear whether they are to benefit from favorable tax measures.

Recent announcements have stated that services related to software development, mobile apps, website portals, outsourcing, digital content and electronic games, information technology training and e-learning will be exempted from sales tax and customs duties.

Goods and services necessary for ICT services will also be subject to a zero sales tax rate. Income tax rates on such services will be reduced by 30% for 10 years, which means that companies pay 14% instead of 20% as income tax.

Overemphasizing Tax Exemptions As an Investment Incentive

The new investment law offers significant tax cuts to investors to encourage them to invest or reinvest their money in the country; however, the Jordanian government has always focused on offering incentives rather than on improving the overall investment climate. For instance, during the past few years, Jordan has witnessed power shortages and floods that cause temporary paralysis of the entire country – and in some cases loss of lives – costing the country millions of dollars as a direct result of the suspension of economic activities.

26- Organisation for Economic Co-operation and Development, OECD Investment Policy Reviews: Jordan 2013 (OECD: 2013).
27- PwC Middle East, Jordan passes new tax law, effective from 1 January 2015 (PwC: 2015).

In order for the government to build a sustainable energy strategy, it has to convince investors of the opportunities for investing in Jordan, which becomes an impossible mission when taking into consideration the dilapidated infrastructure, in addition to regional instabilities. Since rational investors look for secure opportunities where they can achieve the highest return on their investments, Jordan might not be a feasible option for potential investors due to the absence of stable conditions and low operational costs - despite the significant incentives provided by the government.

A further problem in the government's strategy to attract investors is due to incentives being granted to a particular sector/s regardless of company size. As a result, small investors who are considering investing or who already invest in those sectors, which benefit from tax exemptions, will be competing with large firms that enjoy high profit margins and benefit from the same incentives. This system does not enforce the idea of "motivation and attractiveness" that these incentives are supposed to yield, but instead cause small investors, –which are in most cases domestic investors – to halt their investments in that sector/country and find another suitable environment in which to place their investments.

The government also practises an inefficient cost policy when it comes to the sectors that it has selected for tax exemptions. For example, it grants investors in the mining sector exemptions on income generated from exports earnings that reaches up to 100% of revenue/sales. This is unnecessary when taking into consideration the fact that these investors need to be in the country where the resources are available in order to have access to them, meaning that the government should have the upper hand in this case and not the opposite. This differs from tax exemptions given to companies that can produce the same goods in different countries, and which need to have an incentive to invest in one place rather than the other.

The excessive use of tax holidays by the government to attract investors is another policy the government needs to reconsider. Under the new law, the tax holidays' umbrella seems to have extended further, at a time when the government needs every penny it could save to offset the worsening / deteriorating budget deficit. Under the new investment law, projects are exempted from income and social services taxes by 25%, 50%, or 75% for a ten year period, depending on the location of the project. Imported fixed assets are 100% exempted from customs duties and taxes; imported spare parts for fixed assets can be exempted from fees and taxes; additional exemptions from customs duties and income tax are granted in cases of expansion, modernisation or development of existing projects. Hotels and hospitals may purchase furniture and supplies without customs duties once every seven years for renewal purposes.[28]

In a press conference, the government recently announced that it would expand tax exemptions for the ICT sector.[29] Under the new provision, services related to software development, mobile apps, website portals, outsourcing, digital content, electronic games, information technology training and e-learning will be exempted from sales tax and customs duties. In addition to these exemptions, there will also be a zero sales tax rate for goods and services necessary for ICT services, and income tax will be reduced on such services by 30% for 10 years.

Transportation was also included in the provision, whereby companies operating Bus Rapid Transit services between cities will be exempted from paying sales tax and customs duties after fulfilling certain conditions; in addition to other tax exemptions and incentives on projects that benefited from the previous law. The new provision also highlighted other major incentives and tax

28- ASE, 10 Reasons to Invest in Jordan (ASE: 2016).
29- The Jordan Times, Gov't unveils tax incentives to boost economy (Jordan Times: 2015).

cuts, whereby investments in remote areas can receive income tax reductions ranging from 30% to 80% over the next 10 to 20 years. Profits generated from commercial activities in free zones will be exempted from income tax.

Another major highlight was exempting insurance firms willing to merge from income tax for three years in addition to exemptions on fees for registering ownership, transferring and raising capital, and allowing foreigners to invest in the public transport sector provided that their share does not exceed 49% of the company's total shares.

If Jordan is to succeed in establishing a sustainable environment for investments, it has to put more effort into forecasting the outcomes of its policies on the overall economy. A Dinar given away as a tax incentive to one sector or another could yield better economic growth if spent on improving the infrastructure of that sector. A major flaw in the government's incentive policies is the excessive and sometimes unnecessary use of tax exemptions and tax holidays without linking it to the investor's performance in terms of increasing capital (expansion), company size, profit margin, technology transfer, or in some cases the number of local workers hired in the facility.[30] In cases where investors do not qualify for these exemptions, the investment process halts.

According to the Evaluating Tax Expenditures Report produced by USAID's Fiscal Reform Project, the tax incentives in Jordan have created distortions to the economy over the years, which have dissuaded long-term capital investments. The report also indicates that the biggest increase in FDI was in the finance sector, which is subject to higher taxes and less incentives, which demonstrates that physical, financial, legal and institutional infrastructure are more important than incentives in attracting investments.[31]

Industrial and economic zones

Starting from the year 2000, Jordan has been heavily reliant on "Zones" to mainstream investment in Jordan. The most prominent features of these zones are tax incentives, and to a lesser extent, facilitated administrative procedures. Such "special treatment" was supposed to attract investors and increase Jordan's share of global FDI. Furthermore, these policies were also supposed to create jobs, establish a positive balance of payments, transfer technology, capital, and skills, increase competition and economic growth, and eventually as a model for national economic reform.
The feasibility of these measures to the Jordanian economy has been disputed over the past decade. The issue arises from the size of the spillover or "leakages" from these zones to the local communities and thus the economy, and the way in which they are constructed as enclaves that are, to a large extent, separate from the economy.

Jordan has three types of zones; Industrial estates, free zones and special economic zones. The proliferation of zones in Jordan began in the late 1990s after the signing of the Jordanian-Israeli peace treaty in an effort to promote peace and stability in the region. Jordan has a number of free and industrial zones scattered around the country, and only one special economic zone, which is the Aqaba Special Economic Zone Authority (ASEZA).

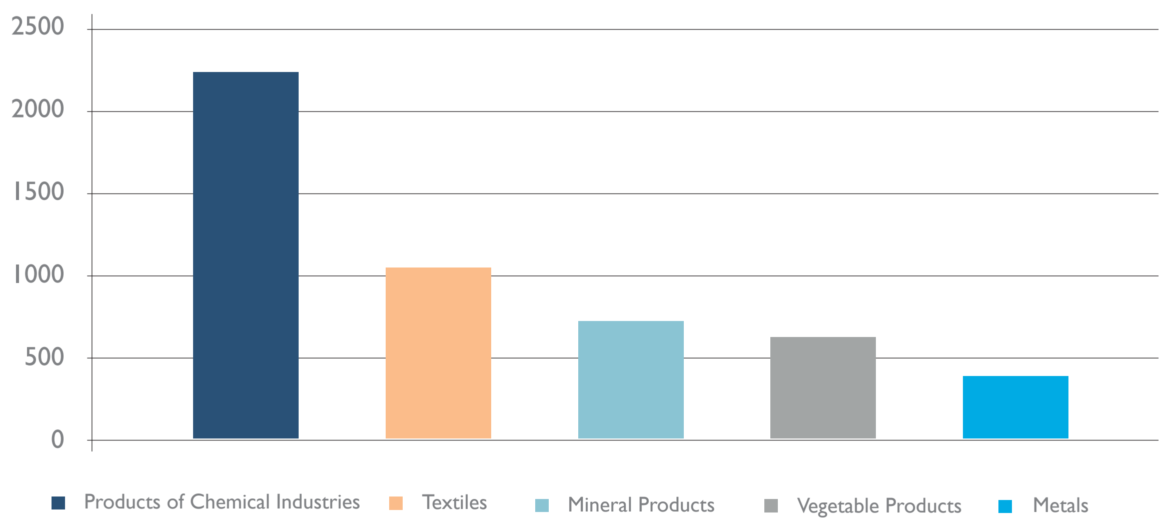
Under the new law, development zones and free zones are given a number of incentives that include a tax rate of 0% on exports, sales tax, import duties, social services tax, dividends tax, and only a 5% income tax. The implication for establishing an industrial or a free zone in the way the Jordanian government does, deprives the concept of its value where instead of it becoming a model

30- USAID, Evaluating Tax Expenditures in Jordan - Jordan Fiscal Reform II Project (USAID: 2013).
31- USAID, Evaluating Tax Expenditures in Jordan - Jordan Fiscal Reform II Project (USAID: 2013).

for national economic reform it turns into the only place where businesses can be conducted easily and in a relatively cheap manner. This resulted in stalling the government's efforts in creating a nationwide reform in the tax regime and economic development approach. It was only in 2014 that the government enacted a new investment law that unified the administrative body of the industrial zones and free zones and created a universal taxation system with a 5% flat income tax for all zones. However, although these measures have succeeded in attracting relatively large amounts of FDI, the issue of establishing backward linkages with the local economy remains a disputable issue, especially when considering that most of the raw materials used in these industries, and more specifically in the textile and apparels industries, are imported rather than manufactured locally[32].

In 2009, a study conducted by the Economy Watch of the Jordan University,[33] cited a report released by the Jordan Investment Commission – Jordan Investment Board at that time – which revealed that manufacturing one children's shirt in Qualified Industrial Zones (QIZ's) costs about 3.5 USD, of which only 0.63 is spent on direct and indirect costs for production in Jordan, which comprises only 18% in total added-value. This percentage is insufficient for expanding the existing investments and creating local supply chains.

Top Five Exported Products (Million US$), 2011



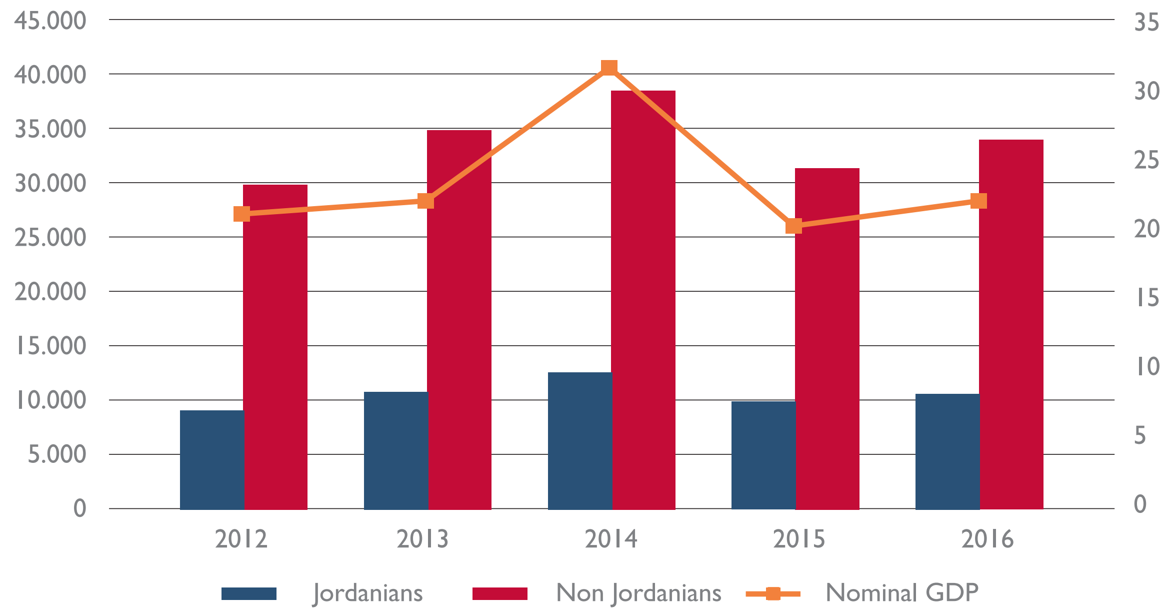
Another study published by Better Work Jordan[34] in 2011 suggests that the value added for the textiles and apparel industry could reach up to 36.9%. This figure is very optimistic when considering the high number of foreign workers in these factories compared to locals, which means that a large portion of the wages generated by these industries are being transferred outside the country instead of being circulated in the local economy.

32- Royal Scientific Society of Jordan and the Friedrich-Ebert-Stiftung, The Future of Jordan's Qualified Industrial Zones (QIZs) (Amman: 2013).20- Observatory of Economic Complexity, What does Jordan import? (2013) (OEC 2013).

33- http://ujnews2.ju.edu.jo/en/english/Lists/StudiesAndResearchs/DispForm.aspx?ID=99

34- University of Michigan Department of Economics and Ford School of Public Policy, The Apparel Industry and the Jordanian Economy Calculating the Domestic Share of Sector Value Added (USA: 1011).

Workers at The QIZ's (Jordanians Vs. Non-Jordanians) 2012 - 2016



**Source: Ministry Of Labor*[35]

In 2001, the percentage of Jordanian workers in QIZ's was 70%, however as more FDI entered the country in order to benefit from the provided tax holidays, the flow of foreign labour increased simultaneously until it reached 78% in January 2016, as can be seen in the figure above. This variation in the number of Jordanian workers can be attributed to the following factors[36]:

1- Low wages: the majority of these workers receive only minimum wages; in addition to that, the annual increase in their salaries is very modest.
2- No job security: many of those who work in factories are susceptible to have their rights violated due to;
3- Low skills: majority of factory owners prefer to hire foreign workers, due to
4- Low social status:
5- Management issues: no flexibility in the workplace for both men and women, also it is not very common for a meaningful communication to take place between the supervisor and the subordinate.

Since most of the industries have only basic equipment, they have failed to transfer technology to Jordanian factories. Furthermore, the fact that most of what is manufactured is exported outside of the country, does not increase the level of competitiveness in the Jordanian market.

Jordan has made some advances in terms of legal reform to investment related laws, however there still needs to be more equality when it comes to providing the same legal treatment to public and private investors. The government should not replace the role of local governments with zones to provide legal and other infrastructure to enhance the investment climate. If the local government cannot attract investment, then central government should empower them to do so. Building zones in rural areas does not help in developing local communities. The government should use the zones as a mean and model for national development and not as the final goal.

35- http://mol.gov.jo/Pages/QIZReports.aspx
36- International Labour Organization and International Finance Corporation, Employment of Jordanians in the Garment Industry: Challenges and Prospects (ILO and IFC: 2012).

The zones should be built only to regulate factories in terms of physical location, and not incentives. However, until there's a clear policy towards investment and the availability of trained and skilled local labor, in addition to the ability to create backward linkages with local economy the building of zones should be halted.

However, the Aqaba Special Economic Zone Authority (ASEZA) may be considered an exception for it has been very successful in attracting DDI and FDI. This could be related to the stability of ASEZA law that didn't change during the last 14 years, the flexibility in allowing investors to bring foreign labour, which is specified at 70%, and in some cases exceptions may be provided for 100% foreign labour. Also, Aqaba has succeeded in provided a good place with decent living conditions for investors and their families and provided a 100% effective duty-free module. But that doesn't mean that the Aqaba module is flawless. There is still lack of local labour, bureaucracy, weak administration and multiple official references. Nevertheless, ASEZA's module is a good source from which to extract the lessons learned and to use them in other free economic zones.

Free Trade Agreements

Since the 1950s, Jordan has signed numerous bilateral trade agreements, in addition to a number of multilateral agreements. Bilaterally, Jordan has a Free Trade Agreement with the US that aims to eliminate tariffs, so since 2010 there has been complete free trade between the two countries. Jordan's Qualifying Industrial Zones Agreement allows quota-free and duty-free access to the US market.

Jordan also signed an association agreement with the European Union in 1997, which only came into effect in 2002, with fully liberalised free trade to be achieved within a 12-years period. In the same context, Jordan signed a Free Trade Agreement with the EFTA states (Switzerland, Norway, Iceland and Liechtenstein); both agreements have been in place since 2002.

Jordan is the first country in the Middle East to sign an FTA with Singapore creating a gateway for business partnerships in the region and South Eastern Asia as well. On the regional front, Jordan is an effective member of the Greater Arab Free Trade Agreement (GAFTA), which has provided the full liberalisation of trade in goods to the markets of (17) Arab countries since January 2005.

To further enhance economic integration between Arab countries and the European market, Jordan also signed Aghadir Agreement, which establishes a Free Trade Area between Jordan, Egypt, Tunisia and Morocco allowing for accumulation of value-added between the four signatory countries for the purpose of exporting duty-free to the EU.

JORDAN BUSINESS ENVIRONMENT AND COMPETITIVNESS

Despite numerous reforms since the 1990s that attempted to foster private sector growth and attract investment, the Kingdom has thus far not succeeded in establishing a favourable business environment. The 2015 International Finance Corporation's (IFC) "Doing Business Report", published annually to measure and rate countries' business climates, ranks Jordan 117th out of 189 economies.

This section examines Jordan's business climate and competitiveness, assessing the current state of affairs and identifying the major challenges to improving its competitiveness. The section will start with a close analysis of the IFC report and an assessment of Jordan's private sector, before turning to the four major challenges identified; access to finance, the political and legal environment, challenges to the workforce and Jordan's energy sector and infrastructure.

Jordan's Business Environment

A closer look at the Doing Business Report helps demonstrate how well Jordan is doing in terms of its business environment. As mentioned, Jordan ranked 117th in 2015, which was one place down from 2014. Figure 1.1 shows both Jordan's **2015 and 2016** position, breaking its rank down to different factors determining the ease of doing business in a country.

Topics	DB 2016 Bank	DB 2015 Bank	Change in Rank
Starting a buisness	88	83	-5
Dealing with construction permits	103	103	No change
Getting Electricity	56	55	-1
Registering Property	98	96	-2
Getting Credit	185	185	No change
Protecting Minority Investors	163	162	-1
Paying Taxes	52	46	-6
Trading Across	50	49	-1
Enforcing Contracts	126	122	-4
Resolving Insolvency	146	146	No change

Figure 1.1 Source: Doing Business Report 2016

The chart below illustrates Jordan's rank in the various indices of this ranking in both 2015 and 2014:

Jordan's Rankings Across Sub-indicators of Doing Business

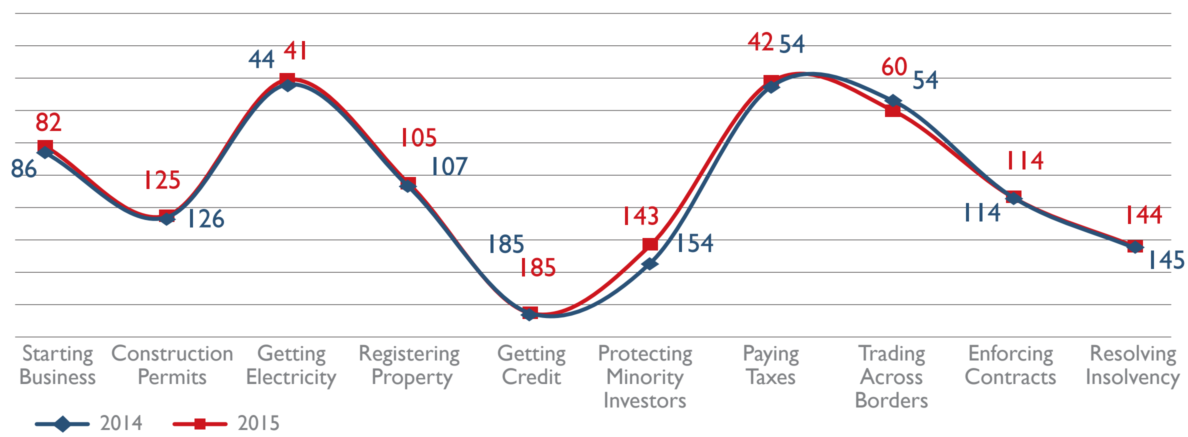
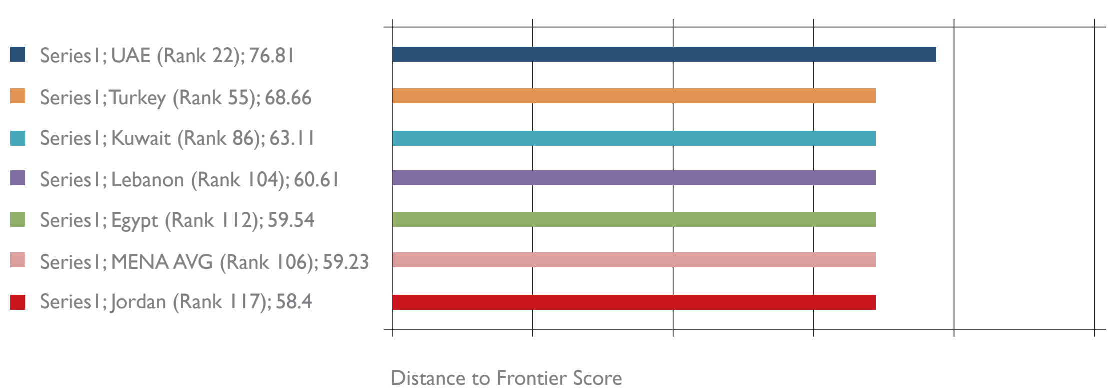


Figure 1.2: Source: World Bank (2015)

The two lines illustrate that Jordan's rank deteriorated in all sub indicators, with the exception of trading across borders. The most significant deterioration was seen in the 'protecting minority investors, for which Jordan's rank reached 154th, falling by 11 positions. This is despite the endorsement of a new Investment Law near the end of 2014 that did not grant enough provisions for investor protection; especially with regards to international arbitration (the next section analyses the law in greater detail).

When comparing Jordan's performance to other countries in the MENA-region, the results are also disappointing. Figure 1.3 charts the ranking and score for Jordan in comparison with a sample of similar economies.

Jordan's Ranking & Score on Ease of Doing Business in Comparison with Similar Economies (2015)



Source: World Bank Group (2015) "Doing Business 2015: Jordan Economy Profile 2015"

The figure shows that Jordan's business environment fared worse than the regional average. Moreover, Jordan's score, which measures the distance to frontier, amounted to 58.4, remaining unchanged from 2014.[37]

37- According to the World Bank, the distance to frontier score shows how far on average an economy is at a point in time from the best performance achieved by any economy on each Doing Business indicator since 2005 or the third year in which data for the indicator is collected. The measure is normalised to range between 0 and 100, with 100 representing the frontier.

Other than the Doing Business report, a look at some other rankings further illustrates a deterioration experienced in the Kingdom's business environment. Jordan came in 64 out of 140 countries surveyed in the World Economic Forum (WEF) Global Competitiveness Index[38] (GCI) Report 2015 – 2016. Although Jordan seems to be doing well taking into consideration the state of the global economy and regional turmoil, Jordan has dropped 29 ranks in the past 10 years, scoring 35 in the 2004 – 2005 GCI report. [39] This drop was caused, in part, by the government's weak performance regarding the macroeconomic environment **(130/140);** the "Government budget balance % GDP" scores very badly and has decreased in recent years. In terms of labour market efficiency, Jordan came in (**93/140),** partly due to a lack in "efficient use of talent" and a low female participation rate, as will be reflected upon in greater detail in a subsequent section.

Challenges to the Workforce

Human capital is Jordan's most valuable asset. Its population is young and relatively well educated; 68% of the population is estimated to be under the age of 30, and the share of people in the labour force that have enjoyed higher education constitutes one of the highest in the MENA region. The 2015 WEF Human Capital Index, moreover, ranked Jordan 4th in the MENA region in terms of having one of the most diversified pools of skills among its graduates.[40] Human capital, however, has so far failed to attract businesses and investment.

A persistent mismatch between labour supply and demand constitutes a crucial factor impeding Jordan's workforce from enhancing its overall business environment. That is, while the labour force contains a large share of university graduates, they have low quality work skills. Many of the most qualified seek opportunities outside of the country especially in GCC countries and there is also a shortage of vocationally trained workers. This mismatch is compounded by a large qualitative disparity between universities and vocational training institutions. As such, both in terms of the number of graduates as well as in terms of the quality of education, Vocational Training Centres (VTCs) lag far behind universities. A 2014 report entitled "Labour Market: The Case of Vocational Training in Jordan", showed that less than 3% of Jordanian youth had formal vocational training and less than 10% had some form of vocational training. Nearly two-thirds of those surveyed were not aware of any centres near their area of residence.[41]

Moreover, the lack of interest in vocational training education could be explained by the fact that many young Jordanians consider such jobs as 'beneath them'. A World Bank policy research paper expanded on this phenomenon and mentions this 'class consciousness' as being a possible reason for the high unemployment rates among young Jordanians. The paper points out, however, that there is only anecdotal evidence to support this claim[2]. Additionally, the survey also found a striking lack of need for new employees. Across all surveyed businesses, only 10% reported that they needed to recruit more employees.[42]

As noted above, the shortage of adequate vocational training and vocationally trained people feeds Jordan's unemployment rates. Unemployment remains one of the toughest problems facing the Jordanian economy, reaching 13.8% during the third quarter of 2015 increasing by 2.4% from the same period in 2014 as reported by the Department of Statistics.[43] The Jordanian economy

38- World Economic Forum, The Global Competitiveness Report 2015-2016 (2016).
39- World Economic Forum and IESE Business School, Global Competitiveness Report 2004/2005 (2015).
40- Jordan ranked 76 out of 124. Among the MENA-region countries, only Israel, the United Arab Emirates and Qatar were ranked above Jordan on places 29, 54 and 56 respectively. http://reports.weforum.org/human-capital-report-2015/
41- United Nations Development Fund, May 2014. "Labour Market: The Case of Vocational Training in Jordan".
42- The World Bank, September 2014. "Testing the Importance of Search Frictions, Matching, and Reservation Prestige Through Randomized Experiments in Jordan". Authors: Matthew Groh, David McKenzie, NourShammout, Tara Vishwanath
43- http://web.dos.gov.jo/13-8--3معدل-البطالة-خلال-الربع-الثالث-من-عام/?lang=en

generates 55 thousand jobs annually, a significant portion of which require vocational training. As many Jordanians don't have access to such trainings or refuse to work in such jobs for various reasons, they end up being unemployed and replaced with foreign labour that possess the skills-set needed and the willingness to accept the jobs, causing the unemployment rate to rise.

Another weakness of Jordan's workforce pertains to its strikingly low female participation rate. Despite extant laws that seek to empower women, the issue of female participation in the labour force in Jordan remains problematic. In the 2014 Gender Gap Report issued by WEF, Jordan was ranked 134th out of 142, compared to 120th out of 134 in 2010[44]. Moreover, according to the latest statistic published by the department of statistics, the refined economic participation rate (the labour force attributed to the population 15 years and above) is 37.6% for the whole Kingdom (60.5% for males against 14.5% for females) in the third quarter of 2015 compared with 36.2% for the whole Kingdom (59.6% for males and 12.5 % for females) in the third quarter of 2014[45]. In addition to this, a World Bank report from 2013 states "the inactive population is overwhelming represented by women with low levels of education. When in the labour force, women face very high unemployment levels, particularly for young and educated groups".[46]

Despite the fact that it is universally recognized that women play a crucial role in the socio-economic development process of a country, it seems difficult for them to gain a foothold in the Jordanian labour market. Within society, women should, just like men, be able to develop their strengths, skills and capabilities to their fullest potential and contribute to the growth of the economy. Jordan is currently missing out on half population by not integrating them in the Jordanian workforce. Not doing so is a great loss of potential, as well as a negative reflection with regard to Jordan's adverse gender-gap ranking. Encouraging diversity in the workforce could open new doors for the Jordanian economy and may make it more attractive to investors and enterprising businesses.

High unemployment rates, partly stemming from the shortage of adequate vocational training, and low female participation rates raise doubts among investors about Jordan's business efficiency, its labour dynamics and the capability of the Jordanian economy to exploit its human capital to its fullest potential.

Access to Finance

The most striking feature of Jordan's business environment is the extremely poor performance in terms of access to credit, ranking 185th out of 189 countries. One potential interpretation of such a poor ranking is a financial sector that is very conservative when serving the needs of small and medium enterprises (SMEs). This is particularly significant as 99.6% of all firms outside the agricultural sector in Jordan are SMEs.[47] This interpretation can be confirmed by a number of recent studies, including a study conducted by the European Bank for Reconstruction & Development (EBRD) which revealed that almost 70% of Jordanian firms that needed a loan were either discouraged from applying for the loan or rejected when they did so.[48] The growth of private sector firms has been hindered by insubstantial access to credit, which has in turn slowed the rate of job creation.

44- World Economic Forum, The Global Gender Gap Report 2014 (2014).
45- The Hashemite Kingdom of Jordan Department of Statistics, Quarterly Report on the Unemployment Rate During the Third Quarter of 2015 (Jordan: 2015).
46- http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2013/10/22/000356161_20131022150059/Rendered/PDF/ACS51580WP0P130ox0379850B00PUBLIC0.pdf
47- Sawtouna and Young Entrepreneurs Association, Small and Medium Business Agenda (Jordan: 2011).
48- Jordan Times (Jul 2015) "Access to Finance Major Concern for Jordanian Businesses"ددق

Almost 40% of all loans granted in Jordan in 2010 went to the government.[49] It is important to note that such high levels of government borrowing leave limited funds available for private sector investment causing a crowding out of the private sector from the fiscal market. The Central Bank of Jordan (CBJ) enforces strict regulations in terms of credit, which can be inferred from the government's low-risk-approach in order to avoid a credit crisis in times of economic turmoil. High interest rates and costs of lending often put loans out of reach of MSMEs.[50]

MSMEs access to capital in Jordan is also limited by what banks believe to be excessive risks and transaction costs, which ultimately do not justify such transactions. Furthermore, there is little, and some times, no financial information about many businesses – especially MSMEs – operating in the country, making it hard for banks to assess the risk associated with granting loans to these institutions, and thus, preventing businesses from obtaining loans.

CBJ realised this problem and is now working on providing low-interest loans to banks to be offered for MSMEs only, with a focus on women and youth led enterprises.[51]

The Central Bank acknowledges that funding for MSMEs has been modest (10% of total facilities granted), which highlights the need to strengthen the sector's ability to access required finance with favourable lending conditions.[52] The Central Bank has given more attention to MSMEs, providing funding programs directed towards local industry, tourism, renewable energy and agriculture, for terms appropriate to clients' financing needs (five years for industry, tourism and agriculture and ten years for renewable energy), and with a ceiling of 5% of loan portfolio of operating banks. In addition, the Central Bank has sought to provide credit lines for MSMEs through the banks operating in the Kingdom.

In 2013, Jordan secured a $70 million soft loan from the World Bank and two years later a credit line of $50 million with similar conditions from the Arab Fund for Economic and Social Development was approved.[53]These were followed by another credit line of $150 million from the same fund due to the success of the banking sector in utilising these amounts in the development of MSMEs in Jordan. Almost the full amount of the World Bank loan was used in developing more than 6000 MSMEs, 60% of which were established outside the capital city.[54] Work is underway to complete final terms of reference for a special loan from the European Bank for Reconstruction and Development (EBRD) worth $150 million for the same purpose.[55] CBJ has provided the facilities needed and support to enable banks to benefit from this loan at appropriate costs and maturities.

According to a study conducted by the World Bank, 49% of large enterprises were able to access needed bank credit, compared to 35% for medium enterprises, 26% for small enterprises and 15% for micro enterprises.[56]

It is worth noting that several non-bank financial institutions provide finance for MSMEs. In 2015, the CBJ approved the licensing of a private credit bureau to monitor and supervise microfinance institutions in order to better regulate their role in financing MSMEs.[47] These initiatives are directed toward playing a bigger role in the fighting poverty and unemployment and promoting financial depth and economic growth.

49- Sawtouna and Young Entrepreneurs Association, Small and Medium Business Agenda (Jordan: 2011).
50- Sawtouna and Young Entrepreneurs Association, Small and Medium Business Agenda (Jordan: 2011).
51- Interview with Central Bank of Jordan.
52- Sawtouna and Young Entrepreneurs Association, Small and Medium Business Agenda (Jordan: 2011).
53- The World Bank, Micro, Small and Medium Entrepreneurs in Jordan Supported by $70 million to Foster Private Sector-Led Growth (Washington DC: 2013).
54- The World Bank, US$50 Million Project to Support Start-Ups and Enhance Access to Finance for Underserved Communities in Jordan (Washington DC: 2015).
55- European Bank For Reconstruction and Development, Jordan MSME Framework (Jordan: 2014).
56- World Bank. 2013. Jordan - Micro, Small and Medium Enterprises Development for Inclusive Growth Project. Washington, DC: World Bank. http://documents. worldbank.org/curated/en/2013/02/17287513/jordan-micro-small-medium-enterprises-development-inclusive-growth-project
57- The Jordan Times - Ghazal, M., Central bank projects in pipeline to support SMEs (Jordan: 2015).

Political and Legal Environment

The second factor negatively impacting on Jordan's business environment relates to its political and legal environment. Investors view government policies and legislation as important signals of a country's commitment to attracting investments and of the value attached to creating favourable business conditions. Similarly, good governance is an important factor in the attractiveness of a country for investment. Indeed, an OECD study found that, even more than economic and fiscal conditions, the political and legal environment are keys to establishing a favourable business and investment climate.[58]

Regarding the legal environment, it is particularly a country's transparency, stability and predictability of its legislative process that are crucial for a favourable business environment. Unclear, overlapping and frequently changing legislation has a deterrent effect on both foreign investors as well as on domestic and foreign businesses.[59] Policy coherence is essential, as risk perceptions are greatly heightened by policies that lack stability and are prone to sudden change.

A problem identified in the investment policy review conducted by the OECD for Jordan in 2013 is Jordan's legal investment regime, which it characterized as 'complex' due to the inaccessibility of some laws and the presence of temporary and overlapping ones.[60] This finding is supported by a recent study conducted by the Jordan Times, in which business leaders stated that the volatility and instability in Jordan's business legislation constitute important deterrent factors.[61] Accordingly, participants in the research noted that, with respect to tax legislation, it is not the value of tax imposed that is a major problem as much as the lack of consistency and the lack of clarity in tax legislation that deter investors and hamper business.

Lengthy and unclear procedures have long been cited as major barriers to business development and investment.[62]The new investment law attempted to introduce efforts to unify regulations related to investment. In order to achieve this, the government extended the authority of granting incentives to the higher council of the Jordan Investment Commission (JIC). Regardless of the new investment law, many investors are still questioning the hidden costs due to the governmental routine, vague procedures, and conflicting jurisdictions.

In interviews and focus groups held by the research team, transparency and (the lack of) access to information arose as other major issues. The research team encountered competition and withholding of information amongst government bodies themselves, and found that the information available is not only fragmented and difficult to obtain, but also often partial. For example, numbers available at the JIC are those for the investment amounts upon which exemptions are provided and not the actual ones spent.

Indeed, access to information by the public remains very limited, despite the fact that the law was passed in 2007 and was amended in 2012 to allow foreigners access to information as well. The law still contains many loopholes and is loosely worded in a way that allows public officials to twist in a certain way to limit people's chances of accessing information.

A number of other difficulties in Jordan's regulatory environment are illustrated by the 2015 "Doing Business Report" (see Figure 1.1 in the beginning of this section). Its low ranking on the sub-categories 'resolving insolvency', 'enforcing contracts', 'protecting minority investors' and

58- Organization for Security and Co-operation in Europe, Best-Practice Guide for a Positive Business and Investment Climate (OSCE Austria: 2006)
59- Ibidem, p. 24-25.
60- See OECD review, competiveness and doing business rankings.
61- Omar Obeidat, "Foreign Investors Interested in Jordan, but want more stable legislation", Jordan Times 16-01-2016.
62- See OECD review, competiveness and doing business rankings.

'dealing with construction permits' indicate that Jordan's governance structures and bureaucracy currently work to discourage for business and investment. The costs incurred and time needed for resolving insolvency and enforcing contracts, in particular, are important illustrators of an unconducive legislative environment.

Another study published by the World Economic Forum in 2014 suggests a poor performance when it comes to legislative provisions to protect investors. Jordan's ranking on "strength of investor protection" deteriorated sharply from 78th in 2006 to 130th in 2014. In terms of the 'infrastructure' pillar of the index, Jordan's ranking deteriorated from 56th to 80th over the same period. The chart below shows Jordan's annual rankings of these two indicators.[63]

Investor Protection & Overall Infrastructure Rankings

World Economic Forum (2014) "Global Competitiveness Index"[64]

The deterioration in investment protection ranking means that Jordan is providing a less enabling environment for investment than other countries. Legislation pertaining to the investment environment fails to provide enough protection for investors, acting as a deterrent. The gradual deterioration in infrastructure visible in this figure points to another serious issue, which will be dealt with in the last paragraph of this section (energy and infrastructure).

With respect to Jordan's political environment, a number of elements in its governance structure and culture currently undermine its business attractiveness. Particularly, a lack of accountability and entrenched corruption, compounded by limited transparency seriously hamper a thriving business climate. Favoritism and nepotism (also known as 'wasta' in Jordan) are considered to be "Acquired Rights" and a part of Jordanian culture, representing an obstacle in the face of creating more efficient and productive business operations, since many economists identify a positive link between law enforcement and increased investment and growth.

Although the parliament passed an Anti-Corruption law in 2006 and based on it an Anti-Corruption Commission (ACC) was created, it is still perceived as weak and inefficient by a wide range of the public. This can be seen clearly by looking at Jordan's ranking in the Corruption Perception Index (CPI) where in 2014 Jordan came in 55[65] dropping 18[66] ranks from 2005 ranking, where the ACC was not established at that time yet.

63- World Economic Forum (2014) "Global Competitiveness Index"
64- World Economic Forum (2014) "Global Competitiveness Index"
65- Transparency International - The Global Coalition Against Corruption, Corruption Perceptions Index 2014: Results.
66- Transparency International - The Global Coalition Against Corruption, Corruption Perceptions Index 2005.

Energy and Infrastructure

Energy is considered one of the most pressing issues for the Jordanian economy, consuming about 20% of its Gross Domestic Product (GDP). Jordan is reliant on foreign energy imports as it imports 96% of its annual energy needs.[67] Consequently, the oil process has direct impact on the GDP growth and inflation rate of Jordan.

The energy crisis started in 2011 after multiple attacks on the Arab Gas Pipeline - also known as the Egyptian Gas Pipeline – that ended up in cutting gas supplies from the Egyptian side permanently in 2014. As a result, the government started increasing its heavy fuel imports in order to compensate for the sudden reduction in gas supply, which constituted 80% of the energy mix used to generate electricity, raising the energy bill to an all-time high of 4.6 billion USD in 2014. [68]

This pushed the government to abolish subsidies on oil and oil products in 2012 creating massive riots nationwide. As a consequence of that step, prices of goods rose between 5% - 10% decreasing people's disposable income causing a depression in the commercial transactions, thus, it affected business owners and manufacturers putting them under pressure securing the money needed to meet their financial obligations. Despite the recent drops in global oil prices, local prices remain relatively high.

The government has been looking into new alternatives to diversify its energy resources and decrease its dependency on heavy fuel, where it recently inaugurated the liquefied natural gas port in Aqaba and approved other renewable energy project.[69] It also signed an agreement with ROSATOM to build Jordan's first nuclear power reactor along with other agreements to explore the prospects of extracting shale oil.[70]

Regarding infrastructure, Jordan has been working on improving its infrastructure over the past ten years through public-private partnerships; although a lot of efforts have been made, the issue forms a significant barrier in the face of new investments in the country in terms of the quality of services provided. In addition to that, there are constant fears that if such services were provided to high standards, the additional costs and indirect taxes associated with these services would not be feasible or would increase the operational costs to the extent that they will not only limit new investments but may also drive away current existing investments.[71]

67 - 2015 Oxford Business Group Report on Jordan.
68 - 2015 Jordan Independent Economy Watch: Energy Sector in Jordan 1 – Gas & Electricity.
69 - The Jordan Times: http://www.jordantimes.com/news/local/king-opens-aqaba-gas-terminal
70 - 2015 Jordan Independent Economy Watch: Energy Sector in Jordan 2 – Crude Oil and Non-renewable Resources.
71 - Jordan Independent Economy Watch: Tax Burden in Jordan – Reality & Prospects.

CONCLUSION

This research aimed at providing an analytical overview of the investment competitiveness of Jordan through studying the available literature, laws, regulations, trends and practices. Interviews were also conducted with all institutions connected to investment in Jordan. In addition to that, focus group discussions were organised with all related institutions, as well as private sector companies and investors. In conclusion, the research found the following:

Investment in Jordan

Looking at the numbers and values of DDIs and FDIs over the past ten years we will find a lot of inconsistencies regardless of the situation in any given year. The research could not find a trend related to increasing or decreasing values of investments over the past ten years. This means that most of the efforts the government is making to boost investments are inefficient, and that investments increases only because other (mostly bigger) investments came to the country in that particular year. Leaving the status quo as it is will lead to the situation deteriorating further and is a big risk for investments in Jordan; especially that, until now, there haven't been any investment-related big jumps in the Jordanian economy.

The Legal Environment

The new investment law may have added some incentives and facilitations for investors in Jordan. However the law still puts restrictions on investments in the country especially in regard to the size of investments to be considered under the investment law, and limiting investors to ten priority sectors if they want to benefit from the incentives under the investment law. If investors are interested in other sectors they will have to go through a very long process to get the approval of the council of ministers. Opening the opportunity for investors to function in all economic sectors without limitations will necessarily encourage more investors to come to the country. Also, reconsidering the unnecessary incentives, especially tax holidays, is a very important factor in improving the economy; connecting tax holidays to the sizes and locations of investments can serve as a tool to improve the economy, improve the infrastructure and create more opportunities.

The biannual changes introduced to the tax law give investors the impression that Jordan has no stable legal environment and drives them away from investing in the country. Making a comprehensive review for the tax law and its related regulations and procedures, especially in relation to tax collection mechanisms will have a direct impact on the business environment in the country and therefore encourage more investors to come to the country. The same applies to the commercial law and bankruptcy law; arbitration in Jordan is not clear and takes a very long time to be settled, which leaves investors in a grey area, which they don't like being in for it poses as an unnecessary risk for them. Reviewing these laws and the arbitration mechanisms will provide interested investors with a clear idea regarding what to expect and how to protect their investments.

Industrial and Economic Zones and Free Trade Agreement

Until now, Jordan's experience of industrial and economic zones hasn't benefited the economy; there is no visible added value or successes related to these zones. One exception may be found in Aqaba Special Economic Zone, which has its own law and procedures, studying the reasons and coming up with lessons learnt regarding the success of Aqaba comparing to other economic zones is a key factor in developing the concept of industrial and economic zones in the country or even reconsidering its value to the economy and therefore its future existence. One scenario might even be transforming the entire country into the Aqaba module.

Free trade agreement is another issue that should be taken into consideration. Although Jordan has signed a lot of trade agreements with a lot of countries, these agreements are not of benefit to the country's economy yet either because it is with much stronger economies and therefore the added value is minimal, or due to the high value of taxes and special taxes that limits the free trade between Jordan and the other country, even in cases when customs are lifted. Reconsidering the added value of each trade agreement and the big amount of taxes imposed on trade is crucial for boosting investments and trade balances in the country.

Jordan's Business Environment

Jordan's business environment may be one of the main reasons, if not the main reason, behind limiting and driving away investments. The combination of inflexible financial policy, uneasy legal environment, high level of bureaucracy, limited access to finance and general attitudes toward investors, especially in the public sector, form the biggest obstacle facing increasing investment in Jordan. As mentioned in the research, Jordan's rank is falling back in all indicators related to the business environment, starting business and doing business. The reasons behind this fall back must be analysed and studied in order to come up with detailed description of the problems and create and carefully designed plan to solve these issues and improve the business environment in the country.

The Workforce

Although Jordan has a large number of university graduates, but those graduates lack the required quality and tools demanded in the labour market. The country suffers from a low number and quality of graduates from Vocational Training Centres, who are crucial for attracting investors. Finding ways to improve the level of university and VTCs graduates is very important because having skilled labour is a main reason for investors to come and start their businesses in the country. In addition to that, Jordan is very weak regarding women's economic participation, which creates a lost opportunity for the labour market and consequently for investors. Solving these issues is very important for building and attractive and highly competitive investment climate in the country.

Access to finance

Jordan's fiscal policy is very tight and highly controlled causing the financial sector in the country to fall behind the global average. Reconsidering the fiscal policies and the way banks function in order to provide more access to credit for investors, especially MSMEs in crucial and important and of a direct benefit, especially for DDIs. Also, uncalculated government borrowing crowds out the private sector, the governmental borrowing policy should be reviewed and heavily reconsidered in order to provide for a better and more functioning financial sector.

Energy and infrastructure

The Jordanian economy was highly affected by the increase in oil prices and caused huge pressures on the public budget. Seeking alternative and renewable energy alternatives in order to provide a cheaper and more sustained alternative is a cornerstone in encouraging more investments in the country. The same applies to infrastructure; reconsidering the tax holidays and tax law and reducing it along with improving the business and legal environment and access to credit will bring more investments and therefore more income from taxes, which can be used in improving the infrastructure of the country and making it more investment-friendly.

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