

# Investment and Business in Jordan to Create Employment: Opportunities and Challenges



West Asia-North Africa Institute, November 2017



All content of this publication was produced by Maria Mikadze and Shaddin Alhajahmad. This publication reflects the views of the authors only.

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Published by the WANA Institute, Royal Scientific Society in Amman, Jordan.

Printed in Amman, Jordan

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Manufactured in Jordan

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## 1. Context

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Jordan is striving to become a country with an open and prosperous economy. Laws and policies are changing to enable a dynamic and successful investment and business climate. Jordan has maintained political, economic, and social stability in the midst of regional instability, conflict, radicalisation and terrorism, and falling oil prices. Jordan has taken concrete steps to drive economic growth, assist Syrian refugees, and project itself as a reliable partner internationally and in the region.

### 1.1 Jordan's Economy

External shocks have negatively impacted the Jordanian economy; reducing tourism, tightening the security apparatus around investment and business, and putting pressure upon public resources. The Syrian border continues to be closed and the Iraqi border has only recently reopened; blocking trade routes and access to markets that used to be very profitable. This has affected economic growth: GDP growth has slowed in the recent years to 2 per cent. Jordan's government spending is dependent upon foreign aid and outstanding government debt was measured as equivalent to 95.6 per cent of GDP in 2017.<sup>1</sup> The economy is struggling to sustain itself.

Jordan's economy is small, and the country has insufficient supplies of water, oil, and other natural resources. GDP is composed mostly from the service sector (66.2 per cent) but also industry (29.6 per cent) and agriculture (4.2 per cent).<sup>2</sup> The country aims to become an industrial economy, to leverage its strong human capital base and to support labour-intensive sectors that create employment. The economy can be described as open but not market driven.

Jordan has 18 special economic zones – 7 qualifying industrial zones, 6 development zones, and 5 free zones (see Box 1). A large part of Jordan's industrial activity takes place in these zones, which are geographically delimited areas with special quotas and tariffs (duty free) and less regulation. Outside of these zones, the economy is more restrictive and controlled. The special economic zones are central to Jordan's objective of opening its economy and attracting investment.

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<sup>1</sup> Trading Economics/Central Bank of Jordan, <https://tradingeconomics.com/jordan/government-debt-to-gdp>

<sup>2</sup> Jordan Economy Profile. Index Mundi. 2017. Accessed October 29, 2017. [http://www.indexmundi.com/jordan/economy\\_profile.html](http://www.indexmundi.com/jordan/economy_profile.html).

**Box 1: Eighteen Special Economic Zones (SEZ)**

Qualified industrial zones: provide duty-free access to the US market for goods produced with certain levels of Israeli or Palestinian content.

1. Al-Dulayl Industrial Park: real estate developer; building and renting of ready-made factory warehouse buildings, selling land to different investors whereby they can build factories, manufacturing facilities and services for the manufacturing industries in the zone according to their own standards as well as others.
2. Al-Hussein Bin Abdullah II Industrial Estate: connects Amman with Aqaba, and Jordan with the Gulf States and Egypt
3. Al-Hassan Industrial Estate
4. Al-Tajamouat Industrial City
5. Gateway Industrial Park: The park operates as an industrial, commercial and logistics hub that facilitates swift and easy transport of products and commodities from and to America, Europe, West East and the rest of Asia.
6. Ma'an Industrial Estate: connects Jordan with Saudi Arabia and Iraq
7. Al Muwaqar Industrial Estate: connects Jordan with Saudi Arabia and Iraq (electronics, medical, food, beverage, electrical engineering, cardboard, textile, metal, wood, chemical)

Development zones: strategically laid out across the kingdom, aim to aid local investors by creating a competitive business environment as well as providing them with new investment incentives and tax exemptions.

1. Aqaba Special Economic Zone: Logistics, warehouses, transportation and tourism
2. Jordan Development Area: Tourism, hospitality and eco-tourism
3. King Hussein Business Park Development Area: Mixed-use technology, front and middle office
4. Irbid Development Area: IT/BPO Service and healthcare
5. KHBTDA (Mafraq): Industrial and logistics hub
6. Ma'an Development Area: Industrial Park for light, medium and heavy industries; ceramics, plastics, electrical appliances and renewable energy

Free zones: promote export-oriented industries and transit trade. Commodities and goods are deposited in free zone areas for storage and manufacturing.

1. Al-Karama: gateway for trade to Iraq from the outside world
2. Zarqa Free Zone: industrial and commercial companies and warehouses, international road network that links Jordan and the neighboring countries
3. Sahab Industrial Estate: aids in the establishment of export-oriented industries
4. Al-Karak: serves industrial companies in Al-Karak
5. Queen Alia International Airport Free Zone: transit trade and establishes light high tech and pollution free industries

The Jordanian dinar has a fixed exchange rate that is pegged to the US dollar, which ensures stability, makes the dinar very strong, reinforces public confidence, and attracts foreign investment.<sup>3</sup> Preserving this fixed exchange regime can be challenging, as the dinar is not based on a strong national economy or large export market. A strong dinar makes Jordan's exports less competitive. As a result, various rumours have circulated regarding the need to devalue the dinar.<sup>4</sup> Devaluing the dinar would lead to an increase in Jordan's external debt.<sup>5</sup> This underscores the urgent need for strengthening the national economy.

The unemployment was last measured at 18.5 per cent in January 2018, and the activity, or labour force participation, rate was last measured at 33.1 per cent during the first quarter of 2017.<sup>6</sup> This problem has been exacerbated by the war in Syria,<sup>7</sup> as the country has received more 600,000 Syrian refugees, which has put pressure upon social cohesion, public services, the economy, and the labour market (Carnegie Endowment, 2015).

The labour market is comprised of three groups: Jordanians, Syrian refugees, and migrant workers. Labour competition is high because these three groups have important distinctions but also commonalities. Jordanians are generally more educated; however, a large share of unemployed Jordanians have the same education level as migrant workers, and Syrians have less formal education but have marketable skills that are not reflected in their formal education. These three groups compete for jobs.<sup>8</sup>

Jordan faces many challenges to provide humanitarian support while also maintaining its own national development agenda. Yet the country has demonstrated resilience in the face of these challenges. A key strategy undertaken by Jordan has been to focus on increasing investment and business to stimulate the economy and create employment.

## 1.2 Strengthening Investment and Business

Over the past decade, Jordan has focused on reforming its investment and business policies, improving its reputation as an attractive destination for investment, diversifying its economy, and stimulating business.<sup>9</sup> The Jordanian Investment Commission has been created by the Government to support investors and businesses, a new Investment Law was passed in 2014, a detailed investment map has been published to highlight investment opportunities (see Annex 2), and business-related regulations have been simplified. These efforts are intensifying as Jordan continues to strengthen its development agenda by attracting investment and improving business opportunities.<sup>10</sup>

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<sup>3</sup> Fanek, Fahed. Dinar pegged to dollar – a success story. *Jordan Times*, 12 July 2015.

<sup>4</sup> Sadi, Walid, M. To stop rumours. *Jordan Times*, 28 January 2017.

<sup>5</sup> Neaime, Simon. Sustainability of exchange rate policies and external public debt in the Mena region. *Journal of Economics and International Finance*, 2009. <http://www.academicjournals.org/journal/JEIF/article-full-text-pdf/65BC1611899>.

<sup>6</sup> Trading Economics/Jordan Department of Statistics, <https://tradingeconomics.com/jordan/employment-rate>, <https://tradingeconomics.com/jordan/unemployment-rate>

<sup>7</sup> EU Institute, 2015. Syrian Refugees in Jordan: A Reality Check.

<sup>8</sup> Susan Razzaz, 2017. A challenging market become more challenging: Jordanian workers, migrant workers and refugees in the Jordanian labour market. ILO.

<sup>9</sup> OECD. 2017. Jordan national investment reform agenda, *MENA-OECD Investment Programme*. OECD.

<sup>10</sup> Fanek, Fahed. Economic growth in 2017. *Jordan Times*, 23 July 2017.

The government is undergoing a decentralisation process, which will increase institutional efficiency and efficacy. Jordan's political and administrative system is centralised, but a decentralisation process that draws on the support of the international community has been in place since 2016. The decentralisation project seeks to enhance coordination across all levels of government in the planning and implementation of policy, revise the rules and regulations that harness openness and participatory policymaking, and create a community of reform among public officials and non-governmental stakeholders.<sup>11/12</sup>

The Economic Growth Plan for 2018-2022 stresses the private sector as the driver of investment in the country, whilst the role of the public sector will be to stimulate and facilitate investment with the best standards of transparency, competition, and equality. The plan seeks to establish a productive and efficient regulatory framework to stimulate business and increase investment by reducing administrative burdens and public sector intervention, improving legislation, expanding e-governance, increasing access to finance, reducing taxes, and implementing judiciary reforms to facilitate economic growth. Jordan's efforts towards becoming an attractive destination for investment and business draw on the committed support of the international community.

Following the London Conference in 2016 to Support Syria and the Region, Jordan together with the European Union and other major donors signed a Compact agreement to support Syrian refugees in Jordan whilst also contributing to the economic development of Jordan.<sup>13</sup> This agreement enacted Relaxed Rules of Origin for ten years for Jordanian exports to Europe.<sup>14</sup> The ROO allow products made in Jordan to include 35 per cent of production inputs from non-local materials. Companies in which 15 per cent of the labour force is Syrian (during the first and second years of the compact, 2016-2018) and companies in which 25 per cent of the labour force is Syrian (starting in the third year of the compact, 2019) can export to the EU under the relaxed ROO framework. The framework only applies to exports that are manufactured in designated development zones and industrial areas and is limited to 52 non-agricultural products. This agreement seeks to attract local and foreign investment, open new markets, and diversify Jordanian exports. While it constituted a huge milestone for the international community and for Jordan, it has been less fruitful than originally hoped.

### 1.3 Objective

The objective of this paper is to lay out the investment and business regulations, and highlight the gaps between regulation and practice. The report is based on desk research and interviews with international organisations, lawyers, business owners from Amman, Zarqa, and Irbid, and government officials from the Jordanian Investment Commission, and the Ministries of Labour, Investment and Trade, and Planning (see Annex 3). The policy recommendations strive to contribute to Jordan's strategy for increasing investment and business, with the ultimate goal of creating employment for Jordanians, Syrians and migrant labour.

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<sup>11</sup> OECD. 2017. *Jordan towards a new partnership with citizens: Jordan's Decentralization Reform*. OECD.

<sup>12</sup> OECD. 2017. *Key issues affecting youth in Jordan*. OECD.

<sup>13</sup> Supporting Syria and the Region Conference, London 2916. <https://www.supportingsyria2016.com/>.

<sup>14</sup> EU-Jordan Compact. 2016. <https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/jordan-compact.pdf>

## 2. Investment and Business Climate

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### 2.1 Regulation

The legal framework for investment and business contains some grey areas that are discussed later in the report (see Annex 4).

In terms of **eligibility**, everyone can invest and start a business in Jordan; although there are certain restrictions based on the sector, type of business/investment, and location. Economic Zones are more accessible for business and investment; outside of these zones, there are several sector restrictions; ownership restrictions (foreign investments require shared ownership — 49-51 per cent — with a national); the application and registration processes are longer; taxes are very high; and there are more financial requirements. Under Articles 4, 5, and 6 of Law no. 77 on Non-Jordanian Investment (2016), not all sectors are fully open for investment and business. Restricted sectors include tourism, construction, advertisement, restaurants, and transportation; restrictions are stronger when projects involve trade.<sup>15</sup>

Foreign investors require additional documentation and financial requirements, and registration processes take longer, given language barriers. This means that Syrians, including refugees, can also invest or even start a business in Jordan, as long as their residence documentation and work permits are in line with the legal requirements; individuals must be legally registered with their status (resident, refugee, national). However, in reality Syrians do face challenges when doing business in Jordan. Even if they manage to open a business or to invest, Syrians require additional paperwork that hinders business operations; Syrians cannot legally own a car, and they cannot easily bring a family member into the country. Some observers draw attention to the arbitrary rejection of investor permits based on nationality due to security fears and to preserve the economy for Jordanians.

Even if theoretically everyone can invest or start a business, individuals must demonstrate sufficient levels of capital. **Financial requirements** used to be very stringent; for instance, foreign investors would need to invest a minimum capital of JOD50,000. Financial requirements have been relaxed; foreign and national investors have no minimum financial requirements applied to their investments, and foreigners and nationals who seek to start a business have to invest a minimum capital of JOD2. Nonetheless, even if there are no heavy financial requirements imposed, there are certain financial costs embedded within the registration process and additional financial requirements are imposed that are not established by law. These include approvals from ministries and government agencies relevant to the business (i.e. Ministry of Tourism for tourism ventures, etc.). The Jordanian Investment Commission does not impose capital requirements for investment projects, however, other ministries may need to grant permission and may impose their own financial requirements. For example, the minimum capital requirement for tourism projects is JOD30,000; the minimum capital requirement for transport projects is JOD100,000, and the minimum capital requirement for import activities is JOD5,000.<sup>16</sup>

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<sup>15</sup> Specific ownership requirements included in Annex 1.

<sup>16</sup> Interview with Company Control Department representative at Jordan Investment Commission. October 2017.

Once investors and entrepreneurs have met financial requirements, they must prepare numerous documents. The **documentation** required for foreign and national investors and entrepreneurs varies depending on whether their project is inside Economic Zones as less documentation is required within these zones. The Jordan Investment commission requires the following documents for investments by Jordanians: civil status ID for the Jordanian investor, company contract and articles of association, a letter of a bank to prove a deposit of no less than 50 per cent of each partner's contribution, prior approval of the competent authorities (sectoral) to practice certain activities, and lawyer's power of attorney. For non-Jordanian partners the following documents are required: a passport or other identifying document for the legal person, and a no-objection letter in the case that the non-Jordanian is a restricted nationalities.<sup>17</sup> Documentation required outside of these zones is elaborate and can include projected profit and loss statements as well as business plans. Foreigners are required to present more documents than nationals, yet details are not presented in the regulations. Documentation requirements may depend on on who is processing the application.

The **registration process** for investing or starting a business in Jordan has been simplified but continues to be a difficult process. Business owners have claimed that legal assistance is fundamental to complete the registration process successfully. Moreover, investment and business registration processes have to be processed through Amman even if undertaken outside of the Amman Governorate.

Registration processes for both investment and business can take from 15 days to 3 months, or even longer. The business registration process is expected to last no longer than 15 days, however, observers contend that it often takes longer. The process consists of at least eight different steps that include registering in the relevant ministries and acquiring the necessary licences (see Annex 4). The smoothness of the process depends on whether the applicant is a foreigner, the kind of investment/business, and the economic sector. It also depends on the SEZ, for instance, the Aqaba Economic Zone has been reported to be extremely efficient.

To invest in special economic zones, there is an Investment Window in the Jordan Investment Commission, which was established as a one-stop shop for investors and facilitates the entire process (an explanation of the process may be found in Annex 4).<sup>18</sup> Investment registration can be undertaken through the online portal, but tends to be processed through physical representation at the Investment Window. The Investment Window is relatively new and does not yet operate at its highest capacity; staff have been reported to change regularly; information flow is unclear, and the organisational structure and strategy is still developing. Registration of foreign investment may take longer based on

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<sup>17</sup> Jordan. Companies Law No. 22 of 1997 and amendments, Limited Liability Company's Capital Identification Regulation No. 17 of 2011, Companies Regulation No. 77 of 2008, Non-Jordanian Investment Organization Regulation No. 77 of 2016.

<sup>18</sup> Jordan. Companies Law No. 22 of 1997 and amendments, Limited Liability Company's Capital Identification Regulation No. 17 of 2011, Companies Regulation No. 77 of 2008, Non-Jordanian Investment Organization Regulation No. 77 of 2016.

language barriers, longer security clearances, and physical distances. The Ministry of Interior can also arbitrarily request further documents, which adds delay to the registration process.

Investing outside of these zones is more complicated and takes longer. The application is done through the Ministry of Industry and Trade and the Ministry of Interior. More information is required from applicants and the process is less predictable because the regulation is less clear. Recent changes in investment regulation have been made and will improve the process; a speedy service line has been launched to reduce the duration needed for investors to obtain the necessary approvals for their investment,<sup>19</sup> and the Jordan Investment Commission has reduced the procedures for registering and licencing investment projects by reducing the number of JIC approval committees from 23 to 13 panels.<sup>20</sup>

Throughout the registration process, **security clearances** must be administered. There is no clear public regulation in this regard. Moreover, there are restricted nationalities designated by the Ministry of Interior that are not forbidden from investing but require security clearance. The Ministry of Interior provides security clearances according to internal criteria, and the process may take between 7 and 10 days. Applications have been rejected based on failure to obtain a security clearance.

Observers have noted that while not a major bottleneck for business and investment, there is room for increased efficiency within the regulatory framework, particularly with regard to arbitrary requirements imposed by ministries and the process for investment outside of the special economic zones.

## 2.2 Labour Law

The labour law in Jordan is relatively restrictive towards non-Jordanians, yet the labour market depends heavily on foreign labour. Non-Jordanian workers are required to obtain a work permit to be formally employed in Jordan. Work permits are valid for one year and are obtained through the Ministry of Labour. Regulation changes regularly; in some situations employers can issue short-term work permits that do not exceed six months,<sup>21</sup> and freelance work permits have been made available to Syrian refugees working in the construction sector.<sup>22</sup> Despite these changes, obtaining a work permit is not simple. Work permits are restricted to certain sectors and occupations; foreign labour can only be hired if the employer can prove that there are no suitable Jordanian candidates.<sup>23</sup> Moreover, under Jordanian labour law, there are set quotas for how much foreign labour can be hired in relation to Jordanian labour. Quota arrangements vary: some sectors allow for 85 per cent foreign labour participation (15 per cent Jordanian participation); other sectors allow for only 12 per cent foreign labour participation (88 per cent Jordanian participation).<sup>24</sup>

The **labour market** in Jordan is complex and has presented a challenge for the country for decades. This is particularly problematic in a very young society. In Jordan, 35 per cent of

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<sup>19</sup> *Jordan Times*. JIC approves 26 investment projects after anti-red tape measures come into force. 20 August 2017.

<sup>20</sup> *Jordan Times*. King checks on JIC's new procedures. 30 October 2017.

<sup>21</sup> Jordan. Circular 2017/181

<sup>22</sup> Jordan. Circular 2017/210

<sup>23</sup> Jordanian Law 1996.

<sup>24</sup> Ministry of Labour, 2017. *Worker quota*. <http://www.mol.gov.jo/Pages/viewpage.aspx?pageID=205>

the population is between 0-14 years old, 20 per cent is between 15-24 years old, and 36 per cent is between 25-54 years old.<sup>25</sup> Jordan performs well in terms of human capital: 97 per cent of its population receives primary education; 82 per cent receives secondary education, and 45 per cent receives tertiary education.<sup>26</sup> Despite the society being young and educated, unemployment is high, and labour force participation is low: the unemployment rate hit a record high of 18.5 per cent in the third quarter of 2017; the labour force participation rate was measured at 33.1 per cent in the first quarter of 2017.<sup>27</sup>

The labour market includes nationals, refugees and migrant workers; there are around 1.4 million Jordanian workers and 1.4 million non-Jordanian workers.<sup>28</sup> Most migrant workers are from Egypt and Southeast Asia; including the Philippines, Sri Lanka, Bangladesh, and Indonesia. Migrant workers generally undertake agriculture, construction, garment, tourism and hospitality, and domestic work.<sup>29</sup> Most Syrian refugees are employed in the agricultural sector and in construction.<sup>30</sup>

Employment is concentrated in the Greater Amman area (Amman, Zarqa, Balqa, Madaba), which employs 68.1 per cent of the labour force, followed by the northern region (Irbid, Mafraq, Jerash, Ajloun), which employs 21.2 per cent, and the southern region (Karak, Ma'an, Tafieh, Aqaba), which employs 10.7 per cent. The sectoral distribution is of 2 per cent in agriculture, 12.3 per cent in industry, 6.4 per cent in construction, and 79.3 per cent in services. Employment in the public administration is also high, accounting for 26 per cent of the economically active population.<sup>31</sup> The rate of female participation in the labour force continues to be low due to customs, traditions,<sup>32</sup> and certain structural factors. According to the World Bank, Jordan's female labour force participation was measured at 13.62 per cent in 2016.<sup>33</sup> Another concern is the large informal market; the IMF has estimated that the size of the informal sector is equivalent to 26 per cent of the Jordanian economy.<sup>34</sup> **Labour competition** is very high in Jordan given the Syrian War, the instability in the region, and the demand for cheap labour; there are approximately 1.4 million illegal guest workers.<sup>35</sup>

<sup>25</sup> Jordan Demographics Profile 2017. Index Mundi. 2017. Accessed October 30 2017.

[http://www.indexmundi.com/jordan/demographics\\_profile.html](http://www.indexmundi.com/jordan/demographics_profile.html).

<sup>26</sup> Jordan Education and Literacy. UNESCO. April 12, 2017. Accessed October 30, 2017.

<http://uis.unesco.org/country/JO>.

<sup>27</sup> Trading Economics/Jordan Department of Statistics, <https://tradingeconomics.com/jordan/employment-rate>, <https://tradingeconomics.com/jordan/unemployment-rate>

<sup>28</sup> Dupire, Camille. Jordanian labour market suffers from 'abundant' foreign workforce – study. *Jordan Times*, 05 October 2017.

<sup>29</sup> Bureau of democracy, human rights, and labour (DRL), US Department of State. Protecting migrant workers' rights in Jordan. ILO. May 16, 2013. Accessed October 30, 2017.

[http://www.ilo.org/beirut/projects/WCMS\\_213470/lang--en/index.htm](http://www.ilo.org/beirut/projects/WCMS_213470/lang--en/index.htm)

<sup>30</sup> United Nations High Commissioner for Refugees (UNHCR). UNHCR Syria Regional Refugee Response. UNHCR. 2017. Accessed October 30, 2017. <https://reliefweb.int/report/jordan/refugee-livelihoods-jordan-september-2017>.

<sup>31</sup> Employment data. Jordan Department of Statistics. 2017. Accessed October 30, 2017.

[http://www.dos.gov.jo/dos\\_home\\_e/main/linked-html/employment/index.htm](http://www.dos.gov.jo/dos_home_e/main/linked-html/employment/index.htm)

<sup>32</sup> UNDP. *The informal sector in the Jordanian Economy*. 2013.

<sup>33</sup> The World Bank, <https://data.worldbank.org/indicator/SL.TLF.CACT.FE.ZS?locations=JO>

<sup>34</sup> UNDP. *The informal sector in the Jordanian Economy*. 2013.

<sup>35</sup> Jordan Times, 2017. Million illegal guest workers in Jordan – ministry.

<http://www.jordantimes.com/news/local/million-illegal-guest-workers-jordan-%E2%80%94-ministry>.

The EU-Jordan Compact specifies the creation of 200,000 job opportunities. As of December 2017, 83,507 work permits had been allocated to Syrian refugees, although these figures may overstate the actual number of active work permits. The challenge is limited job creation, as well as intensifying competition, as demonstrated by the Government's efforts to deny Egyptians entry for employment. The Jordan Investment Commission and the Ministry of Industry and Trade have also signed an agreement in which financial support will be provided to businesses that replace foreign labour with Jordanian labour.

Unemployment has been a problem in Jordan for decades. The Ministry of Labour has a **Closed Professions List** for employment restricted to non-Jordanians. It includes medical professions, engineering professions, administrative and accounting professions, clerical work including typing and secretarial work, switchboards, telephones and connections works, warehouses works, sales works, including all groups, haircutting works (coiffeur), decoration works, teaching professions, including all specialties except for the rare ones when there is no Jordanian available, fuel selling in main cities, electricity professions, mechanical and car repair professions, drivers, guards and servants, buildings servants (circular from the Ministry of Labour, 2016). The Ministry of Labour also has a **Closed Sector List** for non-Jordanians, which includes leather, textile and knit wear; medical supplies and industry, chemicals and cosmetics industries, rubber and plastic industries, engineering, electricity and IT industries, wood and furniture industry, construction industries, manufacturing industries; food, agriculture, and livestock industries; paper, cardboard and office supplies packaging industries; and mining industries.<sup>36</sup>

### 2.3 Ownership Requirements

Foreign and national investors can have full ownership of their investment/business within Economic Zones, but face restrictions outside of these zones and in certain sectors. Foreign investors require a national partner for investments outside of economic zones in a number of sectors; they can only have ownership of 49-51 per cent in sectors such as construction, tourism, or advertising sectors. Sectors such as sports clubs and land transport are fully closed for foreigners. Foreign investments and businesses that involve trade, face ownership restrictions as well and require a national partner. Limitations are established to protect the environment and Jordanian businesses based on the concern that foreign investment and business could crowd out Jordanian business.

### 2.4 Tax Structure and Incentives

Jordan's **economic zones** are fundamental for investment and business, they provide extremely low taxes (only a 5 per cent income tax/net profit tax), less regulation, and administrative processes are accelerated (for instance, land is by default already approved for company operations). These zones also have access to the relaxed ROO framework under the EU-Jordan Compact, in which 35 per cent of production inputs may come from non-local materials, if Syrian refugees account for 15 per cent of the company's labour force.

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<sup>36</sup> Circular from the Ministry of Labour, 2016.

Business owners and investors generally prefer to establish their project in these zones to reduce exposure to taxes and complicated and unpredictable regulations.

**Investing or starting a business outside of economic zones** is less profitable given the high corporate taxes in Jordan as they further drive up the cost of doing business. Even profitable businesses operating outside of SEZs have reported plans to relocate to SEZs to increase profitability. Corporate tax rates in Jordan are as follows: 14 per cent for the industrial sector, 24 per cent for the services sector, 35 per cent for banks, and 20 per cent for all other legal entities. The social security tax is 7 per cent (above a monthly income level of JOD1,000). Resident business owners are taxed on their income at a rate of 7 per cent and non-residents are taxed at a rate of 14 per cent (Tax Law 2015).<sup>37</sup>

Businesses and investors also face high indirect costs as a result of high tax rates: the customs tariffs range from 30 per cent to 90 per cent depending on the product, and the sales, or value-added, tax of 16 per cent for relevant goods and services. The tax on agricultural products amounts to 4 per cent; there is a list of non-taxed products, which includes energy-saving products and pharmaceutical industry inputs. High tax rates impose both direct and indirect costs for investors and businesses operating outside of the special economic zones.

## 2.5 Access to Finance

Accessing capital continues to be a huge challenge for investors and entrepreneurs, be they Jordanian or foreign. Anyone with appropriate documentation in the country can apply for **commercial loans**, however, these are very hard to obtain. Small and medium-sized enterprises (SMEs) in Jordan constitute more than 90 per cent of the private sector and contribute to nearly 50 per cent of GDP, and yet receive a very low percentage of the total value of commercial loans. Entrepreneurs are facing challenges given the high interest rates of these loans.<sup>38/39</sup> Other funding sources are slowly emerging, such as **microcredit support** provided by Tamweelcom, and **private loans** provided by the Jordan Enterprise Development Corporation (JEDCO). The **international community**, especially USAID, EBRD, and the World Bank, also provide financial assistance to entrepreneurs, both Syrian and Jordanian. Despite these diverse channels for financial support, access to finance is still a significant challenge for entrepreneurs.

## 2.6 Judicial System

Jordan ranks very low on the World Bank's (2017) **Enforcing Contracts** indicator, (124<sup>th</sup> out of 190). This indicator takes into account the time — in calendar days — to enforce a contract through the courts and the cost to enforce a contract through the courts in terms of the percentage of claim. Jordan ranks low, but has made efforts to strengthen its judicial system. The justice system faces various challenges including a lack of a labour arbitration system which forces employees and employers to resolve cases independently rather than

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<sup>37</sup> Tamimi Law & Co, message to interviewer, August 24, 2017.

<sup>38</sup> Abdul Aziz Farid Saymeh & Dr. Sulieman Abu Sabha, Assessment of Small Enterprise Financing, Case of Jordan, *Global Journal Of Management and Business Research* 14, Issue 2, 2014.

<sup>39</sup> UNDP, 2011. *Jordan Human Development Report: Small Businesses and Human Development*.

through the legal system; judicial breaks are lengthy and stall court resolutions; filing a case can take up to 37 days, and a woman's testimony carries less weight in court than a man's.<sup>40</sup>

The Jordanian Constitution prohibits expropriations, unless deemed in the public interest. Jordan abides by WTO dispute settlement mechanisms; most cases of **investor-state dispute settlements** (ISDS) are resolved in international courts, and generally take between 12 to 18 months to be resolved. Jordan has had 9 ISDS cases since 2002, acting as a respondent, with the UK, Italy, the USA, Turkey, Kuwait, France and Qatar. These cases have involved the telecommunications, transport, construction, petroleum, and banking sectors (UNCTAD, 2017). However, investors and business people do not classify ISDS as a significant concern. In order to develop the justice system, institutions must be strengthened to prevent corruption, ensure transparency, and enhance capacity and efficiency.

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<sup>40</sup> Enforcing contracts in Jordan – Doing business. World Bank. 2017. Accessed October 30, 2017. <http://www.doingbusiness.org/data/exploreeconomies/jordan/enforcing-contracts>.

## 3. Regulation and Reality Gaps

While the regulatory framework may have certain deficiencies, observers contend that other economic, social and institutional challenges constitute a greater barrier to investment and business.

### 3.1 Economic Challenges

#### 3.1.1 Competitiveness

Changes in regulation are fundamental for the development of the economy, yet another key area is business competitiveness. Improvements in regulation allow for business to be conducted more expediently, however, business owners have consistently claimed that the challenge is not regulation, but rather competing in international markets. Business and product competitiveness must therefore be improved to gain access to export markets and increase overall production.

Jordan's private sector consists primarily of small and medium-sized enterprises (SMEs), which constitute 97 per cent of the private sector.<sup>41</sup> The main challenge for SMEs lies in their inability to secure a **market for their product that is sufficiently large to produce at scale and bring down the cost of production**. If SMEs could be helped to produce more competitive products, then both export and domestic markets could be expanded.

Jordan has a negative trade balance and mostly exports clothing, pharmaceuticals, potash, phosphates, fertilisers, and vegetables.<sup>42</sup> Industrial SMEs work in the pharmaceutical, chemical and cosmetics, paper and packaging, plastic and rubber, food processing, and wood and furniture sub-sectors. Jordan's agricultural sector is inherently limited given that the country is predominantly desert and lacks water. The services sector consists of information and communications technology (ICT), tourism and hospitality, financial services, construction, and transport.

#### **Box 2: Lebanon investing in infrastructure**

Lebanon is investing in infrastructure to improve competitiveness and create jobs. Weak infrastructure proved to be an obstacle for Lebanon's economic development, given the costs imposed by Syrian refugees on transport, electricity, water resources, and municipal – all of which are fundamental for productivity and economic growth.<sup>43</sup> In 2017, the ILO and UNDP, with the Ministries of Labour and Social Affairs, launched a project which formally employs Lebanese and Syrian workers to build much-needed infrastructure projects in areas hosting the majority of Syrian refugees.<sup>44</sup>

<sup>41</sup> Interviewee from USAID.

<sup>42</sup> Jordan exports, imports, and trade partners. OEC. 2017. Accessed October 30, 2017. <http://atlas.media.mit.edu/en/profile/country/jor/#Exports>.

<sup>43</sup> World Bank Group. 2016. *Lebanon: Promoting poverty reduction and shared prosperity*.

<sup>44</sup> Lebanon employment and infrastructure programme (LEIP). ILO. January 31, 2017. Accessed October 30, 2017. [http://www.ilo.org/beirut/projects/WCMS\\_546889/lang--en/index.htm](http://www.ilo.org/beirut/projects/WCMS_546889/lang--en/index.htm).

One of the biggest challenges to competitiveness are the high costs incurred upon business; especially for water, taxes, and energy. **High taxes** imposed directly upon business and indirectly via high input prices undermine business competitiveness. Businesses within economic zones are exempt from paying sales tax, import duties, social service taxes, and taxes on dividends.<sup>45</sup> However, outside these zones, taxes remain very high, and this dis-incentivises potential entrepreneurs from creating their own business: the income (net profit) tax ranges from 14 to 35 per cent; business owners also have to pay the social security tax and a personal income tax.<sup>46</sup> Amman is the most expensive city in the Arab world; prices in Jordan are high, in part as a result of the 16 per cent value added tax and customs duties and taxes for imported goods that range from 30 to 90 per cent.<sup>47/48</sup> This effectively raises the prices of other inputs required to run a business, such as technology and land. The best strategy to avoid such taxes is to start a business in economic zones, however, certain types of business are not allowed to operate in these zones and not everyone can open a business in these zones. Eligibility depends on the size, profit prospects, and sector of the business. In some cases, investments and businesses with female partners are prioritised.

Moreover, despite the high tax rates, tax collection and other enforcement mechanisms remain weak. It has been estimated that JOD1 billion of government revenue is foregone due to tax evasion.<sup>49</sup> Improving tax collection and enforcement mechanisms would allow for a reduction on the corporate tax rate that would lead to increased investment and business competitiveness.

### **Box 3: Taxes in Kurdistan**

Kurdistan has removed taxes on foreign investment and business to create more incentives. The Investment Law in the Kurdistan Region of Iraq No.4 of 2006 provides numerous exemptions to foreign investors, including exemptions from all non-customs taxes and duties for a period of ten years from the production commencement date or offer of services. Vehicles, instruments, equipment and imported machines for the project are also exempt from taxes, duties, and import license requirements, provided they are imported through the border crossings of the region within two years from the date of the approval granted by the Chairman of the Investment Board in the Region (the “Board”), and are used exclusively for the purposes of the project.

An additional burden for businesses and investors are **high energy costs**, which increase prices of Jordanian products and reduce competitiveness. The country is highly energy dependent, as it has no oil reserves, and hence has been struggling with energy for decades. The Government of Jordan supports businesses with the high energy costs, by subsidising

<sup>45</sup> Jordan Investment Commission. 2017. Accessed October 30, 2017. <https://jic.gov.jo/portal>.

<sup>46</sup> PKF (accountants and business advisers). *Doing business in Jordan*. 2016.

<sup>47</sup> PKF (accountants and business advisers). *Jordan tax guide*. 2017.

<sup>48</sup> Income & Sales Tax Department. 2017. *Income tax law No 34*.

<http://www.istd.gov.jo/English/Legislations/Laws.aspx>.

<sup>49</sup> Awad, A. 2015. Jordan’s Economy in 2015: Challenges and Opportunities. *Phenix Center for Economic and Informatics Studies*.

electricity<sup>50</sup> and lowering electricity tariffs.<sup>51</sup> However, despite these subsidies, energy costs continue to be a burden to many businesses. Companies would be willing to use renewable energy, but overhead costs are too high. Efforts towards increasing the use of renewable energy are mounting. Investing in renewable energy is crucial to ease Jordan's dependency on energy and for environmental purposes. In fact, the Jordan Investment Commission has started to promote Jordan as an ideal location for investment in renewable energy and clean technology.<sup>52</sup> Countries are rapidly becoming aware of the potential of Jordan's renewable energy sector.<sup>53</sup>

**Regulation** also restricts competitiveness in other ways. Jordan has been reforming its policies for the past decade to transform itself from a closed economy into a free market economy. The reforms have included efforts to create an investment-friendly and a dynamic business environment. In 2014, a new Investment Law was passed, in addition to revised labour regulations and the 2018-2022 Economic Growth Plan that focuses on strengthening competitiveness and investment. Despite Jordan's efforts to open its economy, many processes and administrative requirements remain complex and slow.

The documentation required for investors is elaborate, and applications may still be rejected by the Ministry of Interior. Many observers have noted that regulation changes frequently; the changes tend to be poorly communicated by the relevant regulatory body, and awareness of such changes remains limited. Internal circulars within Ministries are regular, yet they are not always published online. It may be difficult for investors and entrepreneurs to understand the regulation, and a lawyer must be hired to ensure proper adherence to the law.

In addition, the economy is not fully open; various economic sectors remain closed for investment and business; trade is controlled with high quotas and tariffs applied outside the SEZ; taxes outside of SEZ obstruct business and investment, and financial requirements are not high but the costs throughout the registration process are very high.<sup>54/55</sup> Youth in Jordan continue to migrate because their country does not provide them with opportunities to prosper; heavy regulations makes it difficult to start a business, employment is found through connections, and the old generation continues to govern without allowing room for innovation.<sup>56</sup> This is why many successful businesses move their business to other countries with more favourable business conditions, such as Turkey, that has less bureaucracy and exercises less control over the economy.

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<sup>50</sup> Electricity tariffs. National Electric Power Company – NEPCO. 2017. Accessed October 30, 2017. [http://www.nepco.com.jo/en/electricity\\_tariff\\_en.aspx](http://www.nepco.com.jo/en/electricity_tariff_en.aspx).

<sup>51</sup> Jordan Times. Commission sets new electricity tariffs for 2017. 08 December, 2016. <http://www.jordantimes.com/news/local/commission-sets-new-electricity-tariffs-2017>.

<sup>52</sup> Energy. Jordan Investment Commission. 2017. Accessed October 30, 2017. <https://jic.gov.jo/portal/Services/JordanInvestmentCommission/Energy>

<sup>53</sup> Al Emam, Dana. Jordan, Germany see 'untapped potential' of renewable energy to boost cooperation. *Jordan Times*, 14 May 2017.

<sup>54</sup> Jordan Investment Law 2014

<sup>55</sup> Jordan Business Circulars 2017

<sup>56</sup> OECD, 2017. Key issues affecting youth in Jordan.

#### **Box 4: Turkey's Open Economic Policy**

Turkey had one of the most liberal Foreign Capital Laws (1954). This law was replaced with the new FDI Law on June 2003, which is considered more liberal. The liberal FDI legislation and the experience of more than 5,500 foreign capital firms ensure a stable and reliable investment environment.<sup>57</sup> Turkey even has a Coordination Committee for the Improvement of the Investment environment – YOIKK – to advise the Council of Ministers for making the necessary regulations to prevent administrative barriers to investment. The structure of YOIKK is unique. It is the only joint platform that advises and proposes legal changes to minimise administrative barriers.

Openness is important for growth, however, it can also be harmful to the development of local enterprises. Some companies have highlighted the importance of government protection from foreign firms that were taking share of their market. Jordan is seeking to find the right balance between openness and protection.

The **quality of products** must improve to strengthen competitiveness. This has come into light especially with the EU-Jordan Compact, as many Jordanian businesses have failed to access the European market because their products cannot compete or meet stringent EU quality standards. Jordan's economy has mostly been heavily dominated by services and only recently has it put more emphasis on the industrial sector.

Only 3 Jordanian companies – Winner Plastics and Fyhaa Plastics (both of which are based in the King Abdullah II Industrial Zone) and Jerash Garments & Fashion (which is based in the Al Tajamouat Industrial Estate) – are exporting to the EU following the ROO agreement. Fyhaa Plastics reportedly exported to the EU prior to the agreement. Jordan, with the technical support of the EU, is building the capacities of businesses in the special economic zones, and it is foreseen that more companies will be exporting to the EU. USAID is also supporting Jordan with strengthening its competitiveness; 20 companies with the potential to export to Europe have been identified, and USAID is supporting them by building partnerships in Denmark to identify buyers, and enhancing competitiveness by improving marketing capacities, packaging, and certification standards. Despite such efforts, many businesses owners still argue that other markets are more accessible and profitable.

The EU is one of Jordan's largest commercial partners, accounting for 17 per cent of trade.<sup>58</sup> However, it may not be the most profitable for Jordan, and other markets including countries in Sub-Saharan Africa and the West Asia-North Africa region as well as the United States are easier to access. Since the Iraqi border has reopened, many companies have focused attention there. There are some conversations about how the Syrian border may reopen. This will make the European market less attractive. The Compact is facilitating access to the European market on paper but not in practice. Many companies do export to the EU outside of the

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<sup>57</sup> Akin, Naci. 2004. *Investment in Turkey and the role of TOBB on improving investment climate: Mobilising investment for development in MENA region*. OECD.

<sup>58</sup> Jordan trade. European commission directorate-general for trade. 2017. Accessed October 30, 2017. <http://ec.europa.eu/trade/policy/countries-and-regions/countries/jordan/>

agreement, and eight companies are eligible to export to the EU under the Compact but have not found the requisite demand within EU countries. The EU market is difficult to access and has stringent quality standards. It is not a single market, but is the composite of 28 very different markets, who do not share a common language. In contrast, the US market is larger, more homogeneous, has very high demand given its strong capitalistic economic and social model, and as a result, many Jordanian firms appear more prone to seek out opportunities in this market. If Jordanian firms are to take advantage of the more flexible arrangements available through the relaxed ROO framework, it must be part of a long-term strategy to enter new markets with competitive, high quality products.

**Box 5: Lebanon building capacity to meet international standards for trade**

The Lebanese Government is implementing a strategy with the private sector to improve business competitiveness to export to Europe but also in the region. The objective is to improve market standards to meet international criteria and grow trade volumes through the provision of professional training and an enhanced national certification system. This strategy aims to improve product quality standards and ensure SME compliance to international standards.<sup>59</sup>

### 3.1.2 Public and Private Finance

Access to finance is indeed a problem in Jordan. **Public funding** for investment and business is very limited. The public administration is bloated and accounts for a large proportion of formal employment.<sup>60</sup> There are roughly 830,000 workers in the private sector, compared to about 550,000 in the public sector<sup>61</sup> (although these figures may not be accurate as the informal labour market is also large). Moreover, government debt levels are high, which limits the space for public support of the private sector.

Access to **private finance** is also highly limited. SMEs require financial support to develop their business, however, accessing commercial loans is difficult as SMEs pay high interest rates, which do not incentivise entrepreneurs to take the calculated risks. In addition, SMEs often cannot provide the collateral necessary to secure a loan. The situation has improved slightly as banks have recently developed an online collateral system in which land is not the only form of collateral. This change is expected to increase loans to SMEs by 8 per cent.<sup>62</sup>

Other private loans provided are from the Jordanian Micro Credit Company – Tamweelcom – which provides microcredit loans. The Government also has the Jordan Enterprise Development Corporation, which provides loans to starting businesses. Despite the various options, youth and other entrepreneurs are often unable to launch their own enterprises due to lack of finance. SMEs can also receive financial support from international organisations,

<sup>59</sup> Republic of Lebanon, Ministry of Economy and Trade. 2017. *Lebanon SME Strategy, A Roadmap to 2020*.

<sup>60</sup> Jordan Strategy Forum. 2016. *Job creation in Jordan: Emphasizing the role of the private sector*.

<sup>61</sup> Employment Data, Department of Statistics, accessed August 30, 2015.

<https://jordan.gov.jo/wps/portal/Home/OpenDataMain/OpenDataUser/#/manageDataSets>

<sup>62</sup> Jordan Competitiveness Programme (USAID), message to interviewers, August 28, 2017.

such as the EBRD, USAID, and the World Bank. However, many are unaware of such support mechanisms. Most investments in Jordan support large-scale projects rather than small and middle-sized enterprises. While these projects are large in scale, they are often concentrated in specific areas and do not create positive spillover effects or support backward or forward linkages. In addition, to register a business, the applicant must own an office space. This represents a huge cost for most entrepreneurs. Business incubators can ease this problem, however, Jordan only has a few incubators, such as iPark, and Shamal Start. These incubators are focused on very specific innovation projects and do not serve conventional SMEs.

### 3.1.3 Labour Market

Jordan has been suffering for decades from high unemployment, and this situation has been further exacerbated by the instability in the region and the influx of Syrian refugees into the country. Labour competition is high, and this has created social tension.

**Labour competition** is an issue in Jordan's labour market. Syrian refugees do not compete for high-skilled jobs — these are restricted. However, they do compete for low-skilled jobs. Syrians may be willing to work for lower wages and by some accounts are harder-working than their counterparts. Competition has increased so much that the government has barred the entry of Egyptians into Jordan for employment. In addition, the Jordanian Chamber of Industry and the Ministry of Industry and Trade have recently jointly issued a regulation in which the government will provide social and financial assistance to employers hiring Jordanians instead of Syrians.

The EU-Jordan Compact represented a major milestone for job creation. However, the objective of creating 200,000 jobs appears to be far from reached. The goal was conceptualised as part of Jordan's strategy to develop its industrial sector. However, boosting industrial output has proved challenging in the current regional context, and the Syrian labour supply has proved better suited for work in the agriculture and construction sectors.<sup>63</sup> Refugees also fear that they will lose their humanitarian assistance if they become formally employed.<sup>64</sup> Finally, given the high unemployment rate, some employers may prefer to employ nationals over foreigners.

Employers also complain of **unprofessional** workers. Research suggests that communication channels between workers and management remain poor, complex labour laws and regulations, high wage levels, difficulties in hiring migrant workers, high turnover among Jordanians, and unavailability of right profiles for jobs all present problems for the workforce. Employers should focus on both soft and technical skills through on-site training and off-site vocational education.<sup>65</sup>

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<sup>63</sup> UNHCR, 2015. *Jordan Refugee Response – UNHCR Vulnerability Assessment Framework (VAF)*.

<sup>64</sup> DW, 2017. Syrian refugees in Jordan find little benefit in working legally. Accessed 27 October 2017. <http://www.dw.com/en/syrian-refugees-in-jordan-find-little-benefit-in-working-legally/a-36943348>

<sup>65</sup> Relaxed rules of Origin Agreement for Jordanian products exported to the EU, accessed June 1, 2017, [http://www.animaweb.org/sites/default/files/dg\\_taxud.pdf](http://www.animaweb.org/sites/default/files/dg_taxud.pdf).

The **limited opportunities for highly-skilled Jordanians** present a paradox: undertrained Jordanians may be unable to carry out the tasks required for low-skilled jobs, whilst highly-skilled Jordanians are over-qualified for the existing opportunities. Moreover, many Jordanians who lack access to higher education prefer to work for the military and often leave the private sector for an opportunity to join the army, which provides job security, prestige, and higher wages.

The competition for low-skilled jobs is therefore high, while opportunities for the highly skilled are limited. Increasing business and product competitiveness has the potential to create employment for both types of worker.

## 3.2 Social Challenges

### 3.2.1 Eligibility

While on paper anyone can invest or start a business in Jordan, in practice it is less simple.

**Syrians** are eligible to start their own business and to invest. However, while the process for business registration is the same for Syrians as it for Jordanians, Syrians may face greater challenges in the day-to-day management of the business, as they face greater hurdles renting or purchasing a car and property. In addition, Syrians are sometimes perceived as a potential security threat and may be subject to longer security clearance processes. One Syrian investor who had already invested large sums in Jordan and had an investor visa, described being held arbitrarily at the airport, which led him not to proceed with his investment. In addition, Jordan has lost many Syrian investors to Turkey.

Syrians also may face arbitrary requests throughout the registration process, which are not established in the law; they are requested to present additional documents and face additional financial costs and requirements. All of this suggests that Jordan is protecting its economy from Syrians for fear of security threats and crowding out investment.

### 3.2.2 Social Cohesion

**Social tensions** between Jordanians and Syrians are increasing because Syrians are putting pressure on public services (education, health and municipal services), and are receiving assistance for which needy Jordanians are ineligible. The perception that the system prioritises refugees over low-income Jordanians fuels feelings of marginalisation and economic frustration that can lead to radicalisation.<sup>66</sup> Competition for jobs is also creating tensions.<sup>67/68</sup> Social pressures vary across the country, with tension higher where more Syrians are hosted. Social tension has improved lately given that Jordanians are getting used to the presence of Jordanians, and Syrians have slowly been integrated in the formal labour market.

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<sup>66</sup> WANA Institute. 2017. *Human security and radicalisation drivers in Jordan*.

<sup>67</sup> British Embassy Amman, UNHCR, & UNICEF. *Evaluating the effect of the Syrian Refugee Crisis on stability and resilience in Jordanian host communities – Preliminary impact assessment*. 2014.

<sup>68</sup> Livelihoods, employment and tensions in Jordanian communities Hosting Syrian refugees, thematic assessment report. ReliefWeb. August 13, 2014. Accessed October 30, 2017. <http://reliefweb.int/report/jordan/livelihoods-employment-and-tensions-jordanian-communities-hosting-syrian-refugees>

### 3.3 Institutional and Political Challenges

#### 3.3.1 Regional Instability

Regardless of the country's own stability, the political, economic, and social instability in the region affects Jordan, creating numerous **external shocks**. Border closings with Syria and Iraq affect trade routes. The Iraqi border was opened in late 2017, and trade is slowly increasing again. Politically, foreign country's interests in the region are conflicting and are interrelated with economic interests, influencing foreign investors and businesses. The rising social tensions that started with the Arab Spring are influencing radicalisation, and in turn, undermining human security in Jordan. Jordan continues to maintain stability, which serves to attract foreign investment to Jordan above other countries in the region.<sup>69</sup> The regional situation is out of Jordan's control, however, and continues to present risks for investors and businesses.

#### 3.3.2 Institutional Capacity

Jordan is undertaking a range of reforms for institutional development: including, a government decentralisation plan,<sup>70</sup> fiscal reforms,<sup>71</sup> constitutional changes,<sup>72</sup> and public administration reforms.<sup>73</sup> Jordan is indeed making progress reshaping regulation, laws, and policies. Numerous changes have been made in the last years to improve investment and business opportunities. However, while regulatory reform is proceeding, the implementation side of institutional development will require more time, as the changes to the system must be translated into action. Government officials as well as business owners have claimed that regulation is not the problem for investment and business; an adequate framework is in place. Rather, the real challenge is proper implementation of the new regulations. Implementation of laws and policies has proved challenging for numerous reasons.

**Lack of financial resources** is an obvious problem; Jordan has a large public deficit, which limits the government's capacity to hire new workers and pay higher wages.<sup>74</sup>

Financial challenges affect **capacity and resources at the municipal level**. The capacity of local and municipal government authorities is limited. Until recently, Jordan's governance structure was highly centralised. The country is undergoing a process of decentralisation, yet the process is slow and needs time to function efficiently and effectively.

All investment and business outside of the capital must go through the central government. The central government supports the development of investment and business in other municipalities, however, the focus is on the less developed governorates. The Zarqa

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<sup>69</sup> Jordan Times. Investment map in governorates launched. 29 July 2017.

<sup>70</sup> Jordan Times. Project launched to support Jordan's decentralisation efforts. 2016.

<http://www.jordantimes.com/news/local/project-launched-support-jordan%E2%80%99s-decentralisation-efforts>

<sup>71</sup> Nathan Associates, 2013. *Jordan: Fiscal Reform II (2009-2013)*.

<sup>72</sup> Obeidat, Omar. Constitutional changes aimed to enhance political reforms. *Jordan Times*, 15 August 2014.

<sup>73</sup> UNDP, 2016. *Jordan Case Study: Gender equality and women's empowerment in public administration*.

<sup>74</sup> IFC & ILO, 2017. *Jordan's discussion about including Syrian refugees in the country's work market poses a challenge to win*.

Governorate, for example, is one of the most developed in terms of industry, yet still faces economic challenges and could benefit from increased central government support that is instead channeled into poorer governorates.

Moreover, dynamics between the central and local governments are sometimes characterised by poor coordination, limited local government capacity to enforce the law, and lack of financial resources. In some cases, local governments intentionally disregard the instructions of the central government to assert their power. The decentralisation strategy will work to reverse these trends, but this process will take time.

**Corruption** also undermines the strength of Jordan's institutions, and nepotism interferes with the open economy. Processes are sometimes accelerated with extra payments, and this can be costly for business. Another obstacle to the business environment in Jordan is the so-called 'wasta' (middlemen), who are very common. Observers note that business is more likely to operate smoothly with the right connections.<sup>75</sup> Despite the country's efforts to enforce anti-corruption measures,<sup>76</sup> corrupt public officials are not systematically punished; high-ranking civil servants are rarely prosecuted, and bribery continues to be present in the public administration.<sup>77</sup> In Jordanian society, personal influences and connections override the rule of law.<sup>78</sup> To prevent corruption, automation via online systems will be fundamental.

Despite intense efforts to simplify administration (Jordan Economic Growth Reform Plan), **bureaucracy** and red tape are persistent in the government.<sup>79</sup> The registration process for both investors and entrepreneurs has been simplified, but the process remains costly, lengthy, and complicated. It takes between ten to fifteen days to start a business. A lawyer is not required, but is often necessary given that the process is not simple. Some law firms offer a formal product that helps start-ups for reduced fees. Observers have noted that the process is not fully in line with the law: investors and business owners sometimes face arbitrary requirements resulting from the person at the window. The capital requirements to start a business are low, yet the applicant must prove that he or she has a large sum of money in his or her bank account, and these amounts are sometimes set arbitrarily. Security clearances may also slow down registration processes, and applications are sometimes rejected without explanation.

A concrete example of bureaucratic inefficiency is the registration and approval process for the Tafleh Windmill Farm project, which upon nearing completion was required to receive approval from the Ministry of Agriculture. The applicants were later required to get approval from the Ministry of Tourism and Antiquities, who determined that a stone pile — potentially a Roman bath — may have historical significance and value, which delayed processes by another month. When the project had received final approval, the government changed their buying price of 12 piasters per kilowatt to 10 piasters. These unexpected

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<sup>75</sup> Gan. Jordan Corruption Report. Business Anti-Corruption Portal. 2017. Accessed October 30, 2017. Jordanian Integrity and Anti-Corruption Commission, 2017. <http://www.business-anti-corruption.com/country-profiles/jordan>

<sup>76</sup> Jordan Integrity and Anti-Corruption Commission. Accessed October 30, 2017. <http://www.jiacc.gov.jo/>

<sup>77</sup> Gan. Jordan Corruption Report. Business Anti-Corruption Portal. 2017. Accessed October 30, 2017. Jordanian Integrity and Anti-Corruption Commission, 2017. <http://www.business-anti-corruption.com/country-profiles/jordan>

<sup>78</sup> Al Nasser, Heba. 2016. *New social enterprises in Jordan: Redefining the Meaning of Civil Society*. Chatham House.

<sup>79</sup> USAID, 2013. *Jordan Country Development Cooperation Strategy 2013-2017*.

changes and requirements nearly deterred the investors from proceeding with the process. This serves as an example of how arbitrary bureaucratic decisions create distrust and may drive away investors.<sup>80</sup>

#### **Box 6: Public-Private Partnerships**

One solution to bureaucracy and institutional inefficiency is building public-private partnerships. Lebanon is creating a platform for the private and public sectors to collaborate. The platform will bring together key players and has a huge potential given the political buy-in. It will also help create a network with businesses to help Syrians get jobs. This public-private collaboration is the main livelihoods strategy for the coming years led by the Ministry of Trade and the Ministry of Economy.<sup>81</sup>

Jordan is also strengthening efforts to establish significant public-private partnerships. For instance, IKEA launched an initiative with local non-profit organisations in 2017 to start a line of textiles and rugs made by Syrian refugees, mostly women, working alongside Jordanians, which seeks to create jobs.<sup>82</sup>

Limited **transparency and information flows** also affect the proper implementation of regulation. The most efficient way to obtain information continues to be through the word of mouth. Government officials themselves have acknowledged that websites are not regularly updated. Laws change frequently, and while ministry circulars are regularly released, they are not always published online. Even if regulation has been updated, government officials are not fully updated with the changes, and many continue to operate as usual. Potential entrepreneurs and investors — national or foreign — also have limited awareness of the changes in regulation and the new processes.

#### **Box 7: Efforts to improve transparency and information flows in Lebanon**

To ensure **transparency and information flows**, Lebanon created the Investment Development Authority of Lebanon (IDAL), which provides a user-friendly portal for doing business and investing in Lebanon, and outlines all requirements. Moreover, the Ministry of Justice publishes all required procedures, documents, and payments needed to conclude the registration of an investment or business.<sup>83</sup>

Transparency of information can also strengthen the justice system. Investing in Jordan presents risks to foreign investors and business owners given the regional instability and the internal economic challenges the country faces. Having a reliable **court system** is crucial to

<sup>80</sup> Jordan Competitiveness Programme (USAID), message to interviewers, August 28, 2017.

<sup>81</sup> Lebanon International Investment Forum, accessed August 20, <https://www.cwclebanoninvest.com/>.

<sup>82</sup> Gray, Alex. IKEA wants to help refugee by giving them jobs. World Economic Forum. 2017. Accessed October 30, 2017. [https://www.weforum.org/agenda/2017/05/ikea-wants-to-help-refugees-by-giving-them-jobs/?utm\\_content=buffer40e4c&utm\\_medium=social&utm\\_source=facebook.com&utm\\_campaign=buffer](https://www.weforum.org/agenda/2017/05/ikea-wants-to-help-refugees-by-giving-them-jobs/?utm_content=buffer40e4c&utm_medium=social&utm_source=facebook.com&utm_campaign=buffer)

<sup>83</sup> Lebanon – Investment Climate Statement. US Department of State. 2017. Accessed October 30, 2017. <https://www.state.gov/e/eb/rls/othr/ics/2017/nea/269988.htm>

attract foreigners. According to business owners, lawyers, and government officials in Jordan, the court system does function when contracts are broken but solving the issues is time consuming. Justice does operate significantly better for foreigners because most cases are resolved through international arbitration. Despite progress, Jordan ranks very low in the World Bank's index for enforcing contracts, and further efforts are required to improve justice for investment and business.

## 4. Policy Recommendations

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### 4.1 Simplifying Investment and Business Regulation

1. **Reduce administrative processes.** Remove red tape and bureaucracy to start a business and to invest:
  - Improve regulation by making it more specific and detailed; especially in terms of documentation required, registration process, eligibility, and financial requirements, and clarify differences applied to the type of investment/business, sector, and location. Consolidate regulation that is currently scattered throughout numerous laws and circulars from different Ministries.
  - Reduce the number of licences and registrations required for starting a business – similar to the one-stop station provided by the Investment Window.
  - Impose fewer requirements upon entrepreneurs, for instance, eliminate the ownership of office space requirement.
  - Increase the capacity and decision-making power of the Investment Window by having a stable staff and clear strategy. Allow all investments to be processed through the Investment Window, without the distinction of whether the investment is in economic zones.

### 4.2 Increasing Business Competitiveness

2. **Improve quality of products.** Ensure national products meet international standards.
  - Undertake quality controls. Carry out an analysis of current quality levels and develop recommendations for how to meet international quality standards.
  - Adapt the EU-Jordan Compact. The agreement was established under pressure and without prior analysis. Increasing access to the European market is not a golden bullet for trade with the EU given that Jordanian products cannot compete in the EU market. Invest funding from the agreement directly into improving the quality of Jordanian products, by improving packaging and products, as well as meeting environmental and health standards.
3. **Increase financial support.** Increase financial support to small and middle-sized businesses and stimulate entrepreneurship. Jordan is innovative and has a huge potential. Access to finance is a major bottleneck.
  - Invest in business incubators that provide office space and supplies, mentoring, and educational opportunities and programmes.
  - Promote social entrepreneurship. Social businesses are companies that address and solve a social problem. Providing financial support to entrepreneurs with social business ideas can contribute to the economy and also to society's wellbeing. Social entrepreneurship in Jordan is growing; examples include an online application of home delivery of food cooked by Syrian women, a web-based network of social entrepreneurs in the Arab world; a micro-consultancy that operates in research, education, and youth projects to foster different thinking and enhance human development; social business based on exchange tourism, and a mobile bookshop. These social businesses have a significant social impact. Provide financial support

directly to social business and also provide resources for training and mentoring of social entrepreneurs.

- Attract venture capital investors. Given the fact that Jordan has a large public deficit, it may lack financial resources to support entrepreneurs. This can be solved by attracting venture capital investors to Jordan through conferences to raise awareness about Jordan's business climate, increasing business innovation; and also by reducing the income tax, addressing deficiencies in the regulatory environment, and preserving Jordan's intellectual property protection.
4. **Balance government intervention in the economy.** Free and open markets are important to stimulate competition in the economy, yet can also create problems, as the latest financial crisis in the United States and Europe demonstrated. To ensure economic growth, government intervention must be adequately balanced with an open economy. Government regulation and intervention should be based on a thorough economic analysis that quantifies the balance between free markets and government intervention.

### 4.3 Attracting Foreign Investment

5. **Renewable energy.** Attract foreign investors to increase renewable energy in Jordan. The country already has a National Energy Strategy in place that aims to expand renewable energy.<sup>84</sup> This can be achieved through foreign investment. This investment can be secured if other recommendations are implemented in tandem.
6. **Tax incentives.** Reduce taxes outside of economic zones for foreign investors and for small and medium-sized enterprises. Not all economic sectors are operating within SEZs. Creating incentives outside these zones will attract additional investment. Moreover, SMEs need financial flexibility, especially when starting their businesses. Reducing tax obligations would support their growth, and also incentivise other entrepreneurs to start their own business. Taxation on SMEs should be progressive according to the age, size, and profits of the company.

### 4.4 Strengthening Labour Productivity

7. **Labour productivity.** The labour productivity is not solely determined by changing labour policies, but rather by the skill levels of workers, the integration of technology and innovation into everyday business practices, and the level of competition within the economy. Jordan has taken some steps toward boosting labour productivity. To further enhance labour productivity, more training should be provided in line with employers' calls for the increased availability of professional workers. At the same time, support should be provided to potential entrepreneurs who create employment for highly skilled labour whose job opportunities are currently limited.

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<sup>84</sup> <http://www.jordantimes.com/news/local/jordan%E2%80%99s-clean-energy-sector-attracts-global-investments-%E2%80%94-report>

## 4.5 Developing Institutional Capacity

8. **Establish public-private partnerships.** To make the public sector more efficient, whilst also increasing business opportunities, public-private partnerships should be established. This will also serve to attract foreign investment, improve infrastructure in Jordan, and create job opportunities.
9. **Improving tax collection system.** Taxation is high, yet revenues are not enough to sustain the economy and could be administered more efficiently. An analysis of the current taxation system should be undertaken to understand the weaknesses and strengths and implement adequate changes for a tax system that is fair, simple and transparent.
10. **E-governance.** Information about regulation is unclear and not regularly updated. To prevent bureaucracy and corruption, improving the communication flow is crucial. One way to achieve this is by building Jordan's e-governance, which uses ICT for providing government services online and information exchange between government and recipients, including citizens, businesses, investors, and other governments. This system must be carefully managed because it could remove labour from the public administration and create more unemployment. Establishing an e-governance system to some extent would intensify the government efficiency and efficacy.

## Annex 1: Ownership Requirements

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Regulating Non-Jordanian Investments Regulation No. 77 (2016) [Translation provided by Talhouni Law Firm]<sup>85</sup>

Article 4:

1. A non-Jordanian investor's ownership shall not exceed (50%) of the capital in any project in the following economic activities:
  - i. The following commercial activities:
    - a. Retail and wholesale trade, including distribution services, import and export services (excluding imports necessary for the purposes of the exercise of economic activity and export of its product/commodity).
    - b. Renting and leasing activities, except for financial leasing services.
  - ii. The following services:
    - a. Engineering services and engineering consultancy services
    - b. Construction services and related services
    - c. Technical testing services related to soil and chemical tests for the purposes of building and construction.
    - d. Photographic services excluding motion picture and television services.
    - e. Placement and supply services of personnel.
    - f. Brokerage services, excluding financial brokerage and intermediary services provided by banks and financial services companies.
    - g. Advertising services including advertising agencies and firms.
    - h. Commercial agents and intermediary services and insurance agents.
    - i. Money exchange services except if provided by banks and financial companies.
    - j. Restaurants, cafes and cafeterias except if provided in hotels and lodges.
    - k. Travel agencies and tour operator services.
  - iii. The following transportation services:
    - a. Maritime transport and auxiliary services, including:
      - (a) Passenger and freight transportation, except for transportation on vessels owned by non-Jordanians.
      - (b) Maritime survey and inspection.
      - (c) Maritime freight forwarding services.
      - (d) Shipping agents.
      - (e) Shipping brokers.
      - (f) Ships chandlers.
      - (g) Ships management services.
      - (h) Maritime maintenance.
      - (i) Health services on ship.
    - b. Air transport auxiliary services; including:
      - (a) Ground handling.

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<sup>85</sup> Regulating Non-Jordanian Investments Regulation No. 77. (2016). Talhouni Law Firm. <https://www.slideshare.net/AlTalhouniandOdatLaw/77-2016-73276898>

- (b) Freight inspection.
- (c) Loading and unloading.
- (d) Freight forwarding services.
- (e) Air cargo brokers.
- (f) Warehousing and storage services.
- c. Road transport services including:
  - (a) Specialised tourist transport services.
  - (b) Road transport support services including bus stops and stations, parking, and operating services for tunnels, bridges, roads, and highways.
  - (c) Auxiliary services to road transport including cargo handling, warehousing, and storage services and freight transport agency services, inspection services, loading and unloading, and freight forwarder services.
- d. Clearance services incidental to any of the services listed in paragraph (iii) of this article.

Article 5:

- 2. A non-Jordanian investor's ownership shall not exceed (49 per cent) of the capital in any project within the following economic activities:
  - i. Scheduled and non-scheduled passenger, freight and mail air transport services.
  - ii. Passenger and freight road-transport services
  - iii. Maintenance and repair services for road transport vehicles.
  - iv. Maintenance of radio or television broadcasting transmitters.
  - v. Land purchase for construction, sale and rental of residential apartments.
  - vi. Sports clubs including organisation of athletic events.

Article 6:

- 3. A non-Jordanian is prohibited from whole or partial ownership in the following economic activities.
  - i. Companies for sawing stone, quarries, sand for construction, and masonry blocks used for construction purposes.
  - ii. Detective and security services.
  - iii. Protection, private security, and security training services.
  - iv. Clearance services not including those mentioned in Article (4), paragraph (d).
  - v. Selling, importing and maintenance of weapons.
  - vi. Bakeries of all types.
  - vii. Private shooting range activities.
  - viii. Trading and importing of fireworks.
  - ix. Handicrafts and craftworks that are restricted activities for non-Jordanians will be determined pursuant to an instruction issued for this purpose.

## Annex 2: Investment Map

For more information, visit: <https://jic.gov.jo/portal/en/investment-map-governorate>

Investment Map by Governorate											
Irbid	Ajloun	Jerash	Amman	Balqa	Zarqa	Madaba	Karak	Tafilah	Ma'an	Aqaba	Mafrq
<u>Online catering company</u>	<u>Tourist Restaurant in Ajloun</u>	<u>PET-Plastic Containers Factory</u>	<u>Claims Management- Amman</u>	<u>Vegetables Chopping and Freezing Factory- Balqa</u>	<u>The Production of Simulated Stone- Zarqa</u>	<u>A Cut Flowers Farm- Madaba</u>	<u>A Quarry of Travertine Ores</u>	<u>Gemstones factory- Tafilah</u>	<u>Factory for extracting and manufacturing of Kaoline ores</u>	<u>Fingers of half-fried potatoes factory- Aqaba</u>	<u>Manufacturing of Bentonite Ore</u>
<u>4-Star Hotel Irbid</u>	<u>Dried fruits and raisins in Ajloun FINAL</u>	<u>Multi-Purposes Hall</u>	<u>Documents and Information Management Project- Amman</u>	<u>Touristic Traditional Market - Balqa</u>	<u>A Home Healthcare Services Company- Zarqa</u>	<u>Agricultural Services Company- Madaba</u>	<u>Heritage Traditional Market</u>	<u>Intensive Breeding of Sheeps</u>	<u>Maan 3 Stars Hotel</u>	<u>Potato seed production and cultivation</u>	<u>Zeolite Manufacturing Plant</u>
<u>Business complex Project in Irbid</u>	<u>Aromatic- Final</u>	<u>Private School</u>	<u>Blood Transfusion Bags Plant- Amman</u>	<u>The Production of Healthy Baked products- Balqa</u>	<u>Soiless Cultivation Project- Zarqa</u>	<u>Establishing a Stem Cell Bank Project- Madaba</u>	<u>4-Stars Hotel Apartments in Karak</u>	<u>Volcanic Tuff</u>	<u>Training Institute</u>	<u>Feldspar Manufacturing Plant</u>	<u>Thyme Cultivation Project</u>
<u>Call Center</u>	<u>Chalets- Final</u>	<u>Water Park- Jerash</u>	<u>IV Fluids</u>	<u>An Integrated Factory for the Production of Processed Olives and Pickles- Balqa</u>	<u>A Tourist Village Project- Zarqa</u>	<u>Inflamable Coal Production Plant - Madaba</u>	<u>CACO- Calcium Carbonite Factory</u>	<u>Gypsum factory</u>	<u>Private Hospital Ma'an</u>	<u>A Children's Museum</u>	<u>Establishing a Mall in Mafrq</u>
<u>Dates Grading and Packing Center</u>	<u>Residential Villas in Ajloun</u>	<u>Fruits and Vegetables Grading Center</u>	<u>Permanent Logistics Center- Amman</u>	<u>Calves Fattening Project- Balqa</u>	<u>Establishment of a Commercial Shopping Center (Mall) - Zarqa</u>	<u>Rural Tourist Villas Project- Madaba</u>	<u>Milk Collection and Marketing Center</u>	<u>Wholesale Vegetable and Fruit Market</u>	<u>Dried Tomatoes</u>	<u>Water Park Aqaba</u>	<u>Molding and Metal Manufacturing</u>

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<u>Poultry Feed Factory</u>	<u>Organic Fertilizer Factory</u>	<u>Chili Cultivation Project</u>	<u>Office- Housekeeping Local Labor Employment Company- Amman</u>	<u>Medjool Palm Cultivation Project - Balqa</u>	<u>A Private School- Zarqa</u>	<u>Establishing Event Management and Organisation Company Madaba</u>	<u>Maintenance Center for Hybrid Vehicles</u>	<u>Beekeeping Farm and Production of Honey</u>	<u>Alfalfa Forage Crop</u>	<u>A Diving Center In Aqaba</u>	<u>Building Stone Project</u>
<u>I.V. SOLUTIONS AND BIOLOGICAL PRODUCTS PLANT</u>	<u>Marble Factory</u>	<u>An olive oil filling plant</u>	<u>An Integrated Maintenance - Amman</u>	<u>A Theme Park Project- Balqa</u>	<u>Establishing Creative Center for Innovation and Information Technology Zarqa</u>	<u>The Establishment of Catering Services Company- Madaba</u>	<u>Production jameed</u>	<u>Sumac Cultivation And Production Project</u>	<u>Asphalt Recycling Plant</u>	<u>Seabream Fish Farm</u>	<u>Basalt ore extraction</u>
<u>Tire Re-treading Plant</u>	<u>Juice Plant</u>	<u>Medical Olive Oil Soap Factory</u>	<u>An Autism Spectrum Disorder Treatment Center- Amman</u>	<u>A Private Hospital- Balqa</u>	<u>A Private Hospital- Zarqa</u>	<u>Classified Tourist Camp Project- Madaba</u>	<u>Amusement Park in Karak</u>	<u>Dairy Products Factory</u>	<u>Glass Factory</u>	<u>Granite Extraction Plant</u>	<u>Manufacturing of glucose</u>
<u>Polystyrene Panels</u>	<u>Training Institute</u>	<u>Leather Clothes Plant</u>	<u>A Multi-Purpose Real Estate Project- Amman</u>	<u>Dermatology Hospital (Spa)- Balqa</u>	<u>A Factory for Producing Alcohol-Free Malt Beverages- Zarqa</u>	<u>Pets Care and Breeding Farm Project- Madaba</u>	<u>UPVC pipes factory</u>	<u>Dolomites Factory</u>	<u>Solar panels translation</u>	<u>Establishment a factory for Extraction and Manufacture Silica Ores</u>	<u>A Factory for Freezing Vegetables In Mafraq</u>
<u>Auto parking -</u>	<u>Ajloun resort-</u>	<u>Tourist Resort and Restaurant in Jerash</u>	<u>Online (Virtual) Mall Project- Amman</u>	<u>A Classified Tourist Restaurant &amp; A Multi-Purpose Hall Project- Balqa</u>	<u>Production of Lightweight Construction Products Project- Zarqa</u>	<u>Establishing a Factory for Converting Leaves and Peels of Plants in to Capsuls Madaba</u>	<u>Autoomatic Bricks Factory</u>	<u>Tafilah-Resort</u>	<u>Medicinal herbs plant</u>	<u>Mineral Water and Plastic Bottles Factory</u>	<u>Manufacturing of pickles</u>

## Annex 3: List of Interviews

	<b>Name</b>	<b>Organisation</b>	<b>Position</b>	<b>Date</b>
1	Anan Zeitoun	Jordan Chamber of Industry	Director of Research	July 27, 2017
2	Abir Hasan	Ministry of Planning	World Bank Consultant	July 31, 2017
3	Yasmeen Khreisat	Ministry of Industry and Trade	SME Manager	August 2, 2017
4	Amer Al Hamami	Al-Fyhaa Plastic Industries	Marketing Director	August 16, 2017
5	Anonymous	Undisclosed Chemicals Company	Sales Manager	August 16, 2017
6	Anonymous	Undisclosed Chemicals Company	Export Manager	August 20, 2017
7	Ammar Kalabani	Ministry of Labour	Syrian Employment Unit	August 20, 2017
8	Hala Qutteineh	Tamimi Law & Co	Associate Lawyer	August 24, 2017
9	Hamdan Yacoub	Ministry of Labour	Syrian Employment Unit	August 24, 2017
10	Dr. Wissam Rabadi	USAID – Jordan Competitiveness Program	Chief of Party	August 28, 2017
11	Adnan Abu Al-Ragheb	Jordan Chamber of Industry	Chairman of the Board of Directors / Paper & Packing Sector Representative	September 5, 2017
12	Eng. Saad Kamal Estatieh	Jordan Chamber of Industry	Member of Board of Directors / Wood & Furniture Sector Representative	September 6, 2017
13	Susan Razzaz	World Bank	Consultant	September 12, 2017
14	Dr. Bassam Al Bittar	Jordan Chamber of Industry	Second Deputy Chairman of Board of Directors / Chemicals & Cosmetics Sector Representative	September 14, 2017
15	Eng. Bassam Kelani	Jordan Chamber of Industry	Member of Board of Directors / Representative of Zarqa Chamber of Industry	October 4, 2017

16	Nasser Hawamdeh	Ministry of Industry and Trade	Registration Window Manager	October 16, 2017
17	Ra'ed Ahmed Nawaiseh	JEDCO	Feasibility Studies Department Facilitator	October 16, 2017
18	Adi Ghoneim	JEDCO	Feasibility Studies Department Manager	October 16, 2017
19	Hussam Maharmeh	Jordan Investment Commission	Promotion Investment Department	October 18, 2017
20	Tamara Kabar	Jordan Investment Commission	Head of Communications and Promotion Programs	October 18, 2017
21	Awatef Al Shahwan	Jordan Investment Commission	Company Control Department Commissioner	October 18, 2017
22	Ahmed Al Majali	Jordan Investment Commission	Investment Window Manager	October 18, 2017
23	Abdullah Al Etawi	Jordan Investment Commission	Head of Special Economic Zones	October 18, 2017
24	Hasan Allobani	Arab Weavers Union	Admin and Financial Manager	October 19, 2017
25	Anonymous	Undisclosed Food Processing Company	Engineer/Management	October 19, 2017
26	Anonymous	Undisclosed Food Processing Company	HR Admin	October 19, 2017
27	Mutaz Namroqa	AlHassan Industrial Estate	Industrial Estate Director	October 31, 2017
28	Hani AlShantawi	Magma Engineering Industries	General Manager	October 31, 2017
29	Mohammed AlNin	Durra Food Industries	Company Owner	October 31, 2017
30	Ali AlMigdad	Durra Food Industries	Purchasing Manager	October 31, 2017
31	Mohammad Malkawi	Nature Echo Pharmaceuticals	Creative Director	October 31, 2017
32	Wasan Fayez Hmeidat	Classic Fashion	Admin	October 31, 2017
33	Majd AlTal	Classic Fashion	Admin	October 31, 2017

## Annex 4: Guide: How to Invest and Start a Business in Jordan

**Everyone can invest or start a business in Jordan;** nationals, foreigners, residents, and refugees are treated as foreigners (Investment Law 2014). Foreigners must be legally registered in the country.

**BUT** restrictions apply to:

1. **Type of business/investment:** Home-based business can only operate in the Greater Amman Municipality and with a minimum capital of JOD1,000. Outside of this municipality, no one can obtain a license to operate a home-based business (Vocational License Law No20 of 1985; Commercial Law No.12 of 1966).
2. **Location:** Foreign and national investors can have full ownership of their investment/business within Economic Zones, but face restrictions outside (see ownership restrictions applied by sectors).

**Eighteen Special Economic Zones** – qualified industrial zones, development zones and free zones – where a large part of economic activity takes place.

Qualified industrial zones: provide duty-free access to the US market for goods produced with certain levels of Israeli or Palestinian content.

8. Al-Dulayl Industrial Park: real estate developer; building and renting of ready-made factory warehouse buildings, selling land to different investors whereby they can build factories, manufacturing facilities and services for the manufacturing industries in the zone according to their own standards as well as others.
9. Al-Hussein Bin Abdullah II Industrial Estate: connects Amman with Aqaba, and Jordan with the Gulf States and Egypt
10. Al-Hassan Industrial Estate
11. Al-Tajamouat Industrial City
12. Gateway Industrial Park: The park operates as an industrial, commercial and logistics hub that facilitates swift and easy transport of products and commodities from and to America, Europe, West East and the rest of Asia.
13. Ma'an Industrial Estate: connects Jordan with Saudi Arabia and Iraq
14. Al Muwaqar Industrial Estate: connects Jordan with Saudi Arabia and Iraq (electronics, medical, food, beverage, electrical engineering, cardboard, textile, metal, wood, chemical)

Development zones: strategically laid out across the kingdom, aim to aid local investors by creating a competitive business environment as well as providing them with new investment incentives and tax exemptions.

7. Aqaba Special Economic Zone: Logistics, warehouses, transportation and tourism
8. Jordan Development Area: Tourism, hospitality and eco-tourism

9. King Hussein Business Park Development Area: Mixed-use technology, front and middle office
10. Irbid Development Area: IT/BPO Service and healthcare
11. KHBTD (Ma'raq): Industrial and logistics hub
12. Ma'an Development Area: Industrial Park for light, medium and heavy industries; ceramics, plastics, electrical appliances and renewable energy

Free zones: promote export-oriented industries and transit trade. Commodities and goods are deposited in free zone areas for storage and manufacturing.

6. Al-Karama: gateway for trade to Iraq from the outside world
7. Zarqa Free Zone: industrial and commercial companies and warehouses, international road network that links Jordan and the neighboring countries
8. Sahab Industrial Estate: aids in the establishment of export-oriented industries
9. Al-Karak: serves industrial companies in Al-Karak
10. Queen Alia International Airport Free Zone: transit trade and establishes light high tech and pollution free industries

These zones are geographically delimited areas with special quotas and tariffs (duty free) and less regulation:

- income tax 5%
- income tax on exports 0%
- sales tax 0%
- import duties 0%
- social service tax 0%
- dividends tax 0%

**Taxes outside Economic Zones:**

- Income Tax/Net Profit Tax (Tax Law 2015): Industrial sector 14%, services 24%, banks 35%, and all other legal persons: 20%
- Social Security Tax: 7%
- Personal Income Tax: Business owners are taxed on their income – residents 7% and non-residents 14%

3. **Sector:** Some sectors are closed for foreigners or partially restricted.

Examples of closed sectors for foreign investment (Jordan Investment Climate 2015) include periodical publications, security services, and land transportation services. The Cabinet, however, may approve foreign ownership of projects in these sectors if the project is highly valuable to the national economy and employs a large number of Jordanians.

A non-Jordanian investor's ownership shall not exceed 50 per cent of the capital in any project in the following economic activities (Regulation 77 of Investment 2016): retail and wholesale trade, engineering services and engineering consultancy services, construction services, advertising services including advertising agencies and firms, restaurants, cafes,

cafeterias except if provided by hotels and lodges, travel agencies and tour operator services, or transportation services.

A non-Jordanian investor's ownership shall not exceed 49 per cent of the capital in any project within the following economic activities: maintenance and repair services for road transport vehicles, maintenance of radio or television broadcasting transmitters, or sports clubs including the organisation of athletic events.

Non-Jordanian investors and businesses must have a national partner if their project involves trade.

## Investment

No financial requirements are imposed upon investors. However, depending on the type of investment, another ministry may need to grant permission impose financial requirements:

- i) Tourism: JOD30,000
- ii) Transport: JOD100,000
- iii) Import activities: JOD5,000

It takes 15 days up to 3 months to receive accreditation. Investments by foreigners may require longer to process if the authorisation has to be provided in a language other than Arabic, if the magnitude of the investment is large, and if the sector warrants the special attention of the authorising ministry.

## Inside Economic Zones

Apply through the Investment Window, which has been established in the Jordan Investment Commission and provides one-stop service for licensing economic activities and reviewing licenses.

Submit the requested documents, which mostly involve information about the applicant and the proposed investment.

The Jordan Investment commission requires the following documents for **investments by Jordanians**:

- x. Civil status ID for the Jordanian investor
- xi. Company contract and articles of association
- xii. A letter of a bank to prove a deposit of no less than 50 per cent of each partner's contribution
- xiii. Prior approval of the relevant authorities (sectorial) to practice certain activities
- xiv. Lawyer's power of attorney

The Jordan Investment Commission requires the following documents for **investments by non-Jordanians**:

- i. Passport or probative documents for the legal person
- ii. No-objection letter to the non-Jordanian restricted nationalities (if there are any)

Applications will not be accepted unless they add value to the Jordanian economy and are worthy of tax exemptions and privileges.

The investment process through the Jordanian Investment Commission is as follows (Companies Law No. 22 of 1997 and amendments, Limited Liability Company's Capital Identification Regulation No. 17 of 2011, Companies Regulation No. 77 of 2008, Non-Jordanian Investment Organization Regulation No. 77 of 2016.):

1. File the company registration application including the names of partners, capital, shares of partners and company position and objectives together with the required documents with the authorised officer of the companies control department.
2. Signature of partners of their designate before authorised officers of the Companies Control Department in the Investment Window or before a public notary or licenced lawyer.
3. Have the application and documents reviewed by the authorised officer of the Companies Control Department.
4. Have the necessary approvals by the other concerned authorities (if any).
5. Payments of the registration fee with the JIC accounts department.
6. Issuance of the registration certificate by the authorised officer of the Companies Control Department at the Investment Window.

### Outside of Economic Zones

Apply in person through the Ministry of Industry and Trade.

Investors must provide information regarding the expected revenue of their investment, business plan, and labour hiring details. The Ministry of Interior and the Ministry of Industry and Trade approve or disapprove the investment application.

#### **Security Clearance:**

- Certain nationalities and/or certain types of investment/business require clearance and approval – nationalities are established in a 'restricted nationalities list.'
- The Ministry of Interior undertakes a security clearance throughout the registration process, it takes one week up to ten days. The investor must submit an application to the Ministry of Interior.
- This is decided by the Ministry of Interior. A single security approval is now sufficient for any procedure necessary for an investor's residency or work in the Kingdom (Jordan Investment Commission, 2017).
- The Ministry of Environment must provide a clearance for the investment depending on the location and sector. The Jordanian Investment Commission will request the investor to contact the Ministry of Environment.

## Starting a Business

(General Partnership, Limited Partnership, Limited Liability, or Limited Liability-One Man Company)

Takes 10 to 15 days

The minimum capital required to start a business is JOD2 (Investment Climate Statement 2015). There are costs and indirect financial requirements imposed throughout the registration process.

### Documents required for anyone seeking to start a business in Jordan:

- Land Registration and Ownership Certificate (unless it is a home-based business)
- Land Blueprint
- Location Organisational Blueprints
- Preliminary project or business venture layout
- Land Coordinates (required for agriculturally classified lands only)
- Owners copy of passport or other personal identification documentation
- Land categorisation and distance from coordinates (for agriculturally classified lands only)
- Form of Identification: the National Identification Card (ID) for Jordanians and non-Jordanians a copy of his/her passport

Steps:	
Open a bank account and deposit at least 50 per cent of the startup capital.	Bank, 1 day
Register with the Ministry of Industry and Trade. JOD85 JOD	Ministry of Industry and Trade, 1 day
Obtain a tax identification number and Register for VAT.	Companies Registry – Tax Office, 1 day (can be done simultaneously with previous step)
For commercial activities, register with the Chamber of Commerce. JOD50-1,500	Chamber of Commerce, 1 day (can be done simultaneously with previous step)
For industrial activities, register with the Chamber of Industry. JOD100-1,500	Chamber of Industry, 1 day (can be done simultaneously with previous step)
Obtain a vocational license.	Greater Municipality of Amman (GAM), 8 days
Receive health and safety inspection.	Greater Municipality of Amman (GAM), 1 day (can be done simultaneously with previous procedure)
Register for social security.	Social Security Office, 1 day (can be done simultaneously with previous procedure)

### Financial support:

- Commercial loans from Banks
- Jordanian Micro Credit Company, Tamweelcom, offers a variety of loan packages
- Jordan Enterprise Development Corporation (JEDCO) provides loans to start business
- International community – USAID, EBRD, World Bank (Innovative Start-up Fund) provides financial support to entrepreneurs

### Justice System

Jordan ranks 124<sup>th</sup> on the enforcing contracts indicator (time required to enforce a contract through the courts (calendar days); cost required to enforce a contract through the courts (per cent of claim) (World Bank, 2017).

BUT Investor-State Dispute Settlement norms are in line with the World Trade Organisation. Under domestic law, foreign investors may seek third party arbitration as a means of settling disputes. It takes anywhere between three to four years for cases that go through the local court system to reach a verdict. Cases settled through arbitration take between 12 and 18 months (Investment Climate Statement, 2015).

Expropriations are prohibited unless deemed in the public interest. In cases of expropriation, the law mandates the provision of fair compensation to the investor in convertible currency (Jordanian Constitution).

### Labour Market

The labour market is restrictive.

Non-Jordanian labour must be granted a **work permit** from the Ministry of Labour, and can only be hired if there is not competition with Jordanians (no demand on the part of Jordanians or the relevant skill set is not available amongst Jordanians). Priority is given to foreign Arab labour (Jordanian Law 1996).

- Work permits are valid one year (Jordanian Law 1996). New circulars have been released that allow for more flexible work permits; employers can issue short-term permits that do not exceed six months (Circular 2017/181), and freelance work permits have been released for Syrian refugees working in the Construction sector (Circular 2017/210).
- Jordan has committed to providing 200,000 work permits for Syrian refugees (EU-Jordan Compact).
- Egyptian foreign labour has been restricted from entering the country for employment reasons.
- A recent agreement has been established by the Ministry of Labour, Ministry of Industry and Trade, Jordan Chamber of Industry, and Employment-Technical and Vocational Education and Training (E-TVET) Fund that provides financial support to companies that replace foreign labour with Jordanian labour. The program will last five years and 16,000 Jordanians are expected to replace foreign workers; the agreement covers 50 per cent of Jordanian employee salaries, JOD25 in transport allowance, JOD25 for social security costs, and health insurance worth 3 per cent of 12-month wages.

**EU-Jordan Compact Agreement (2016-2026):** Jordan agreed to provide 200,000 work permits for Syrians and the EU agreed to the relaxed Rules of Origins (ROO) framework.

ROO: 65 per cent of the product should be produced in Jordan for Jordanian exports from special economic zones. Companies whose workforce is 15 per cent Syrian in years one and two of the compact and 25 per cent Syrian from years three onward, can export to the EU under the relaxed ROO.

Closed Profession List for non-Jordanians:

- medical professions
- engineering professions
- administrative and accounting
- clerical work including typing and secretarial work
- switchboards, telephones and connections works
- warehouses works, sales works
- haircutting works (coiffeur), decoration
- teaching professions
- electricity professions, mechanical and car repair professions
- drivers, guards and servants, buildings servants

Closed Sector List for non-Jordanians:

- leather, textile and knit wear
- medical supplies and industry
- chemicals and cosmetics industries
- rubber and plastic industries
- engineering, electricity and IT industries
- wood and furniture industry
- construction industries
- manufacturing industries, food, agriculture, and livestock industries
- paper, cardboard and office supplies





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