



JORDAN

NATIONAL INVESTMENT REFORM AGENDA

MENA-OECD
INVESTMENT
PROGRAMME



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A. BACKGROUND

I. Introduction

1. Facing competition from other regions and growing domestic pressure from a young workforce, a number of Middle East and North African (MENA) countries have recognised the need to implement economic and regulatory reforms to increase the private sector participation in their economies. Investment climate reforms remain a key element of the economic restructuring policy undertaken by MENA countries in an effort to transform their economies from public sector dominated to private sector led economies. Since the end of 1990s and beginning of 2000, the pace of economic reform in general - and investment climate in particular - has accelerated as MENA governments have realised the need to attract private sector investment to reduce unemployment.

2. In 2004, countries in the region have invited the OECD to provide input in the process of investment policy reform and hence the MENA-OECD Investment Programme was established. Since then, one of the key objectives pursued by MENA countries, using the Programme as a resource and a platform, is to share good practice of investment policy reform.¹ There have been two major avenues for doing so – regional workshops and activities of the Programme, and country specific activities which have been organised in the framework of National Investment Reform Agendas (NIRAs). Reflecting their reform priorities, the participating MENA countries have started developing NIRAs in 2004 and continued this exercise throughout 2005-2006.

3. The NIRAs specify investment reform issues being discussed by a specific country with the OECD, along with concrete implementation targets and deadlines. These reform agendas are developed by Country Teams in cooperation with the OECD Secretariat. The objective of the National Investment Reform Agendas is to provide a framework for MENA countries:

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

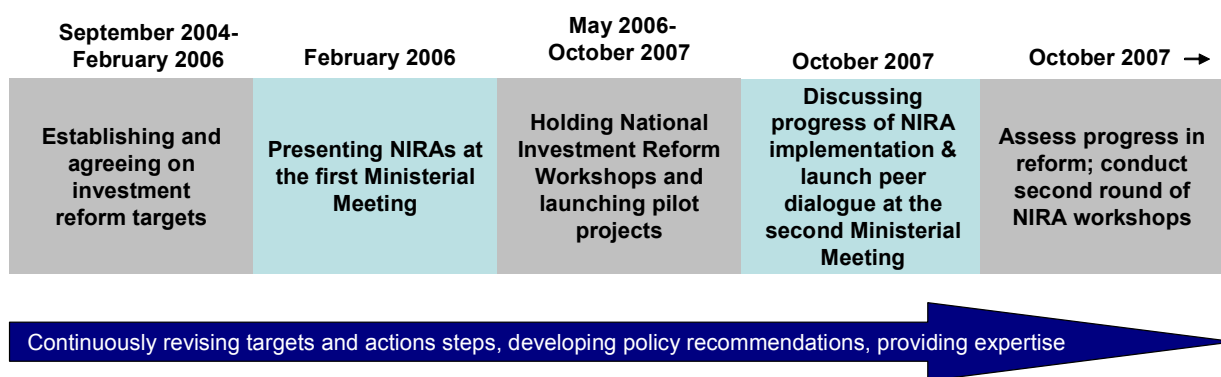
4. The first official presentation of NIRAs took place on the occasion of the first Ministerial Meeting of the Programme in February 2006 in Jordan, where several countries have presented their NIRA projects and the overall progress of investment climate reform. Following the Ministerial meeting, more countries have joined the effort to establish NIRAs with the Programme, and NIRA workshops have been organised starting in May 2006 to discuss concrete policy areas where OECD expertise and input was

¹ In this context, investment policy reform issues are thought of as encompassing areas covered by the five Working Groups of the Programme, ranging from establishing a transparent investment climate to encouraging investment promotion agencies, to providing appropriate tax, financial sector and corporate governance frameworks.

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sought. Although adopting different formats, adaptable to country circumstances, NIRA workshops have generally focused on 2-4 specific policy issues where OECD and country technical experts have discussed and agreed on follow up actions. Following these discussions, pilot projects such as launching corporate governance codes or investment laws have been agreed upon in coordination with Government counterparts in respective countries. In the course of these projects, the Secretariat provides technical assistance requested by the Country team, and assists in the evaluation of progress of specified targets vis-à-vis the deadlines.

5. The following graphic demonstrates schematically the process followed by the Programme in its work on NIRAs with MENA countries:



6. It is important to highlight that the NIRA process, while aimed at individual country reforms, is indirectly linked with the Programme’s regional element of work. NIRA workshops conducted to date have highlighted several cross-cutting themes which can be integrated into regional activities of the Programme.

II. Current Status of the Jordanian National Investment Reform Agenda

7. Since the inception of the MENA-OECD Investment Programme, Jordan has been actively engaged in its activities. The Jordanian government co-chaired the Programme with the United Kingdom from its inception until the Ministerial meeting held in Jordan on February 2006 and has hosted the Ministerial meeting.² The Ministerial Meeting held in Jordan received presentations on the progress of implementation of set out targets for the different countries. The session was chaired by H.E. Sharif Ali Zub’i, the Minister of Trade and Industry of Jordan at the time.

8. In cooperation with the OECD Secretariat, the Jordanian Government has elaborated a detailed National Investment Reform Agenda with concrete reform targets. Following the establishment of the National Investment Reform Agenda, a workshop to review the implementation of investment policy reform in Jordan was held in June 2006. This workshop was organised by the MENA-OECD Investment Programme in cooperation with the Jordan Investment Board (JIB) during the UNIDO Forum ‘Growing Business in Jordan’. The workshop served to announce and discuss a new draft Investment Law in Jordan,

² Jordan was thus named the Founding Chair of the Programme.

which contained provisions concerning restructuring the JIB and reviewing the sectoral restrictions to investment. The event received substantial media attention and a selection of articles covering the event is available from the MENA-OECD website.³

9. The Jordan workshop was timely given the speed of reforms witnessed in Jordan in the last five years especially, and has served to strengthen the co-operation between the OECD and its host, the Jordan Investment Board, which was the first chair for the Programme and held a successful Ministerial meeting in February of 2006. The workshop was one in a series of country specific events, organized by the MENA-OECD Investment Programme focusing on progress of investment climate reform in the region.

10. The following document outlines the current Jordanian National Investment Reform Agenda⁴, and the background materials drafted for the NIRA workshop in June 2006. Please note that the content of these documents reflects the policy reforms considered by the Jordanian government as of December 2006.⁵

³ Please see http://www.oecd.org/document/28/0,2340,en_34645207_34749074_35567516_1_1_1_1,00.html.

⁴ The NIRA presented at the end of this document has been last updated following the NIRA workshop. A mission is scheduled for 2007 to discuss follow up steps.

⁵ Implementation activities on certain projects have proceeded beyond of what is documented in the present version of the NIRA.



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NATIONAL INVESTMENT REFORM WORKSHOP - AGENDA

Dead Sea, Jordan

June 19, 2006

Chairpersons of the meeting:

Mr. Sharif Ali Al Zub'i, Minister of Trade and Industry, Chairman of the Jordan Investment Board

Mr. Richard Hecklinger, Deputy Secretary General, OECD

Dr. Maen Nsour, Chief Executive Officer, Jordan Investment Board

9:30-10:00	Opening session
	<p><i>Opening remarks by:</i></p> <ul style="list-style-type: none"> • H.E. Mr. Sharif Ali Al Zub'i, Minister of Trade and Industry • Mr. Richard Hecklinger, Deputy Secretary General, OECD • Dr. Maen Nsour, Chief Executive Officer, Jordan Investment Board
10:00-10:15	Coffee Break
10:15 - 11:30	SESSION I: Investment Climate Development: Improving the Institutional Structure of Investment Agencies
	<p>Reform of the Jordan Investment Promotion Law</p> <ul style="list-style-type: none"> • Dr. Maen Nsour, Chief Executive Officer, JIB • Mr. John Finn, Financial Economist, US Department of State • Dr. Alexander Böhmer, Senior Policy Manager ,OECD <p>Tax Incentive Reform</p> <ul style="list-style-type: none"> • Dr. Tayseer Abdul Jaber, Chairman Board of Directors, Investment House for Financial Services • Discussion

11:30-12:30	Session II: Investment Institutional Arrangements: <i>The Way Forward</i>
	<ul style="list-style-type: none"> • Mr. Issa Gammoh, Assistant CEO, JIB • Dr. Khaled Al-Hmoud, Government Performance Directorate , Prime Ministry <p>Assessment of JIB’s One-Stop-Shop: <i>Achievements and Challenges</i></p> <ul style="list-style-type: none"> • Mr. Mohammad Amawi, Director, Al JIDARA Investment Services • Eng. Omar Abu Wishah, Deputy Managing Director Petra Engineering Industries Co. • Discussion
12:30-12:45	Coffee Break
12:45 – 14:00	SESSION III: Corporate Governance Code
	<p>Implementation of a Corporate Governance Code: <i>Importance of an Enabling Environment:</i></p> <ul style="list-style-type: none"> • Dr. Omar Al Jazy, Vice-Chairman, Jordanian Corporate Governance Association • Mr. Richard W. Frederick, lead OECD consultant and former Senior OECD Corporate Governance Specialist • Mr. Nick Nadal, Programme Manager, Hawkamah Institute for Corporate Governance • Discussion
14:00-15:15	Lunch
15:15-16:30	SESSION IV: Venture Capital Funds: Creating an Enabling Environment
	<p><i>Challenges facing Venture Capital Funds in Jordan:</i></p> <ul style="list-style-type: none"> • Mr. Osama Malkawi, Malkawi & Associates • Dr. Ahmad Tantash, Chairman & CEO of Jordan Invest <p><i>Recommendations to Promote the Venture Capital Environment of Jordan</i></p> <ul style="list-style-type: none"> • Mr. Gert Wehinger, Directorate for Financial and Enterprise Affairs, OECD • Mr. Yarub Quda, CEO of Jordan Upgrading Modernisation Programme, • Discussion
16:30	Press Break

B. SUMMARY OF PROCEEDINGS

JORDAN NATIONAL INVESTMENT REFORM AGENDA WORKSHOP

19th June, 2006

1. In co-operation with the Jordan Investment Board, the MENA-OECD Investment Programme has co-organised a National Investment Reform Agenda (NIRA) workshop for Jordan on the 19 June 2006. This workshop took place in conjunction with the UNIDO Investment Forum “Growing Business in Jordan” and highlighted the progress on key issues of investment policy reform in Jordan. During this workshop, high-level Jordanian Government officials, representatives of international organizations, and private sector participants discussed Jordanian investment reform targets, including improving the institutional structure of the JIB, implementing tax incentive reform, creating an enabling environment for venture capital funds, introducing corporate governance standards, and assessing the One Stop Shop.

2. A number of key organizations - including the European Union, the Center for International Private Enterprise, the Arab Business Council and the Union of Arab Banks - working on improvement of investment climate and encouragement of greater private sector participation in the local economy, attended and participated actively during the course of the day. An open discussion with the panellists followed each session, where questions were debated by the OECD and local experts, Government officials, and private sector stakeholders.

I. Opening Session

3. The workshop was opened by H.E. Sharif Ali Al Zub’i, Minister of Industry and Trade, who summarised the progress of investment reform in Jordan and outlined the overall connection between investment climate and economic development in Jordan. In his speech, the Minister highlighted Jordan’s interest in SME development in value added sectors for FDI attraction as a key strategy in order to achieve economic growth rates in order of 6-7%. According to the Minister, Jordan will need \$2 billion USD dollars of FDI in 2007 and \$3 billion in each of 2008 and 2009 to achieve such growth, thus underscoring the urgency to address investment climate challenges. 4. The Minister has also announced that the Jordanian Government had finished working on a new Investment law that is expected to be presented before Parliament before the end of the year.

5. Dr. Maen Nsour, head of the Jordan Investment Board, provided highlights of the draft new Law which addressed the institutional relationships and structure of the Jordan Investment Board. The draft law also expands the list of sectors which will benefit from exemptions and entitlements to include information technology, research and development, vocational training, and energy.

II. Institutional Structure of Investment Agencies: Improving the Institutional Structure of Investment Agencies

6. Presentations by a representative of the Jordan Investment Board (JIB) and the Government Performance Directorate of the Prime Ministry addressed the long standing debate of whether merging

different institutions concerned with investment issues such as the Jordan Investment Board (JIB), the Jordan Enterprise Development Corporation (JEDCO); as well as amalgamating the Industrial Estates Corporation and the Free Zones Corporation into one entity known as the Jordan Authority for Enterprise Development (JAED) would be more effective than empowering the existing entities.

7. Participants and panellists concluded that, as the draft law suggests, empowering JIB with support of JEDCO as a think-tank in the Ministry of Industry and Trade would be the best way forward. The announcement by Dr. Maen Nsour that this proposal is most likely to go through brought this topic of concern to a positive close.

III. Investment Institutional Arrangements: The Way Forward

8. A representative of a private sector company which has previously interacted with the JIB and Mr. Mohammad Amawi, Director of Al JIDARA Investment Services, gave an assessment of the JIB's One Stop Shop. The panellists outlined Jordan's accomplishments in streamlining procedures and its success in bringing together the relevant agencies in a single operating framework to ease the process of starting up business in Jordan. However, both speakers pointed to challenges such as a large number of unnecessary committees, lack of compliance by some government institutions in cooperating with the OSS, and the lack of documentation of requirements and procedures. The speakers suggested that capacity building for OSS staff and setting up an industrial map of the Kingdom are all issues that should be addressed in the near future.

IV. Tax policy related to investment climate

9. Dr. Tayseer Abdul Jaber, Chairman of Investment House for Financial Services and one of the key advisors on Jordan's new draft Investment Law, provided an overview of relevant fiscal reform related items present in Jordan's National Agenda. These items include phasing out oil subsidies and transferring civil service employees to the social security system in order to reduce pension expenditures pension, among other sector specific initiatives.

10. Dr. Abdul Jaber then provided recommendations on a tax incentive system that would: 1) expand exemptions for individuals (education, health care, house rent, interest payments, and dependents), 2) maintain exemption of 50% of Government employees' income, 3) maintain exemption of all agricultural income, increase depreciation allowance, 4) improve administration efficiency of tax collection, and 5) avoid imposing a unified income tax rate. This final point was strongly supported by the private sector discussants present.

V. Corporate Governance Code

11. The actual impact of the code currently in existence for Jordanian banks was questioned by participants and discussants; this could be an important indicator about how to proceed with a broader codification effort.

12. A call to all relevant stakeholders to express their interest in a codification project for a corporate governance code for Jordan was sounded. This proposal was strongly supported. The importance of private sector involvement and even private sector leadership in an eventual codification effort was mentioned.

13. Mr. Richard Frederick, a Corporate Governance Specialist representing the OECD, chaired a session where panelists and discussants alike agreed that the development of a governance code could be a

useful complement to legislation, and could be used to avoid some of the drawbacks of the legislative processes, while at the same time providing flexibility and responsiveness, and involve the private sector.

14. Dr. Omar Al Jazi, Vice-Chairman of the Jordanian Corporate Governance Association, addressed the relationship between company law, securities law, and voluntary codes of best practice. The issue of legislation versus codification for the case of Jordan as a country not accustomed to “soft laws” was discussed. Since governance codes generally represent general “better” practice and are voluntary; it was concluded that Jordan could do well to use this approach.

15. One of the discussants suggested that there is a need for greater competency and a better understanding of governance issues within the justice system in order to ensure better enforcement. Additional training of lawyers on governance and company law matters was suggested by the chairman.

16. Participants emphasized the necessity of spreading general awareness on the importance of sound governance, and the importance such awareness could have on the development of necessary cultural change on this matter.

17. One of the panelists proposed issuing a call to all relevant stakeholders to express their interest in a codification project. This proposal was seconded by another discussant. The importance of private sector involvement and even private sector leadership in an eventual codification effort was mentioned.

VI. Venture Capital Funds: Creating an Enabling Environment

18. The panel on venture capital held during the NIRA workshop received presentations from Mr. Osama Melkawi of Melkawi & Associates and Mr. Ahmad Tantash, Chairman & CEO of Jordan Invest on challenges facing venture capital funds in Jordan, as well as from Mr. Gert Wehinger of the OECD and Mr. Yarub Quda, CEO, Jordan Upgrading Modernisation Programme (JUMP) on recommendations to promote the VC environment in Jordan.

19. Contrary to statistics of some organisations involved with the issue of entrepreneurship in Jordan, several participants expressed the opinion that there is not enough entrepreneurial culture in Jordan. Despite the high entrepreneurial activity, the high share of SMEs, and the potential congruency between Islamic finance and venture capital, there is relatively little readiness by financiers to take risks and to explore new ventures. For instance, Mr. Tantash, who was a Board Member of the Arab Business Angels Network, mentioned that in the past there was a lack of proposals submitted to the Networks Review Board for support. This view however, is not corroborated by all industry participants, as a recent entrepreneurship competition held at the Princess Sumaya University generated interest from approximately 420 participants.

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Mr. Quda from JUMP noted that government support and/or PPP was necessary to help kick-start new ventures, a view that was shared by many participants in the following discussion. He noted that the equity gap was the largest for young firms seeking investments higher than \$150,00 JD. Mr. Quda, who had participated in the OECD SME Financing Conference in Brasilia in March,⁶ was also grateful for the help the OECD – as well as the European Commission – had provided for JUMP.

20. Mr. Quda also mentioned that JUMP will seek to bridge the equity gap by establishing a Jordan Seed Fund (JD 24 million) and a Jordan Venture Fund (JD 20 million). The proposal for the Seed Target Fund is that JUMP will invest in 50%, with donors matching 50% of funds. The fund will seek to make 30-40 investment (10 per annum), investing 50,000-150,000 JD in two rounds of financing. Exit will be done by management or company buy-back, trade sale or loan repayment. The Jordan Venture Fund is intended to invest in 20-30 industrial SMEs, 30,00-700,000 JD per investment (2-4 rounds of financing) with an investment period of 5-7 years.

21. Representing the OECD on this panel, Mr. Gert Wehinger presented the broad trends in venture capital in OECD countries, situating MENA trends in a global context. He highlighted positive trends for the development of venture capital in the MENA region, including ample liquidity, congruence between Islamic finance and venture capital, as well as foreign capital seeking higher returns. He outlined the opportunity for VC development in the MENA region, and highlighted the challenges particular to Jordan.

22. Participants also noted that there seems to be a lack of infrastructure, and it was suggested that there should be more and closer co-operation between business and universities. As mentioned above, such cooperation has already been occurring as the example of the Queen Rania Entrepreneurship Center linked with the Princess Sumaya University demonstrates. Business incubators should be located especially around technical universities, and programmes to help establish new ventures should be placed within the framework of universities. However, it was also mentioned that the efforts should not remain fixated on high-tech projects, as there is also potential for innovation and start-ups outside universities. Therefore, plans to set up business incubators should take this potential into account.

⁶ In pursuit of the objectives of the Istanbul Ministerial Declaration (a result of the 2nd OECD Ministerial Conference on SMEs held in Istanbul, Turkey in June 2004, underlining the importance of this issue by encouraging the OECD to organise a thematic conference in order to further discuss and seek more innovative solutions and initiatives for facilitating SME access to financing, from creation to all stages of development) and at the invitation of the Brazilian Government, the OECD Working Party on SMEs and Entrepreneurship (WPSME) has co-organised a high-level global conference on SME Financing in Brazil on 27-30 March 2006 in the framework of the OECD Bologna Process on SME and Entrepreneurship Policies. See, e.g., the background document *The SME Financing Gap: Theory & Evidence* [DAF/CMF(2006)7].

**C. CONTRIBUTION BY THE MENA-OECD INVESTMENT PROGRAMME TO THE
UNIDO INVESTMENT AND TRADE FORUM**

“GROWING BUSINESS IN JORDAN”

**PRESENTED AT THE NATIONAL INVESTMENT REFORM AGENDA WORKSHOP FOR
JORDAN**

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I. Introduction

1. The Kingdom of Jordan played an active and highly supportive role in the initiation phase of the MENA-OECD Investment Programme and hosted under the leadership of the JIB two key Steering Group meetings in 2004 in Amman. On the occasions of these meetings and subsequent missions of the OECD Secretariat supported by OECD countries in May and November 2006 the Jordanian interlocutors proposed items for a National Investment Reform Agenda. Discussions took place with the Jordan Investment Board (JIB), representatives from JIB, officials from Ministries and representatives from EJADA, AMIR and the Chamber of Industry.
2. The Middle East and North Africa (MENA) - OECD Investment Programme promotes broad reforms to enhance the investment climate, strengthen regional and international partnerships, and promote sustainable economic growth throughout the region. The programme aims at countries' capacity to design and implement policy reforms. The programme provides a platform to facilitate policy dialogue and sharing of experience on investment related policies among policy makers from MENA countries and their OECD counterparts.
3. The Investment and Trade Forum "Growing Business in Jordan" was organized by the Jordan Investment Board (JIB) with the support of the United Nations Industrial Development Organization (UNIDO) and funding by the Italian Government.
4. The Forum specifically assisted small and medium enterprises (SMEs), and took into account their crucial importance as generators of employment and major contributors to sustainable economic development. It is expected that the Forum contributes to trigger investment flows and to help expand the export of industrial products of participating SMEs. The event focused on establishing direct interaction between foreign and local companies.
5. On the first day of the Forum presentations were held on the industrial investment environment for SMEs and the financial schemes available to companies investing and trading in Jordan and the region. In addition, leading international experts presented several case studies of companies with strategic partnerships in Jordan.
6. On the second day of the Forum the MENA-OECD Investment Programme held a Workshop on the National Investment Reform Agenda of Jordan. The National Investment Reform Agenda meeting in Jordan was one in a series of Workshops on National Investment Reform of MENA countries participating in the MENA-OECD Investment Programme. The UNIDO Forum will organize bi-lateral meetings for companies in the different sectors in parallel to the OECD Workshop.
7. Throughout 2005, many participating MENA countries developed National Investment Reform Agendas. These Reform Agendas include concrete investment policy reform measures aimed at improving the countries' investment environment. They define reform targets in the policy areas covered by the Programme. MENA Countries have started a peer dialogue on their National Reform Agendas during the two Steering Group meetings held in April and October 2005 in Paris and Istanbul and the Ministerial meeting on 14 February in Jordan.
8. The workshop brought together government Ministries and agencies involved in reform efforts for improving the investment climate in Jordan and other stakeholders from the business community as

well as from international organisations. Experts from MENA and OECD countries and International Organisations will animate the discussions.

9. The issues covered were taken from the National Investment Reform Agendas developed under the Programme. Experts from MENA countries and the OECD prepared notes on the issues and lead the discussions. At the end a set of recommendations emerged on how to implement concrete reform steps on the issues discussed.

II. General Investment Climate in Jordan

10. This section provides an overview of the general investment framework for Jordan focusing on the key investment climate issues for which recommendations have been developed by the Working Groups of the MENA-OECD Investment Programme.⁷

11. Jordan is classified by the World Bank as a "lower middle income country." The per capita GDP was approximately \$1,817 for 2003 with an average of 14.5% of the economically active population reported to be unemployed in the same year. Literacy rates are recorded at 85% and 95% for women and men respectively, a relatively high number in comparison to other countries with similar incomes. Jordan's population growth has stabilized at 2.8% annually since 1999. The Jordanian economy has shown strong performance in recent years and growth continues to be robust. Real GDP growth is estimated to have been strong at 7.2 percent in 2005, mainly driven by private consumption and investment, partly financed by large private capital inflows. Average inflation remained under control, at 3.5 per cent.⁸ The currency has been stable with an exchange rate pegged to the U.S. dollar (with Dinar equal to 0.709 USD).

12. Jordan has limited natural resources and depends on external sources for the majority of its energy requirements. However, the potential of local gas and shale oil reserves are being explored. At the end of 2005, the National Association Industry Support Committee (NSIAC) announced the intent to set up a public shareholding company to produce oil from shale, with the support of the government in granting mining rights in the Southern area of Wadi al-Lejjun. Indeed, Jordan has known oil-shale reserves of about 40 billions tonnes, which could in theory produce as much as 28 bn barrels of oil. The US Trade and Development Agency is also providing financial assistance to analyse and apply new technologies for oil-shale extraction, Jordan is also currently exploring ways to expand its scarce water supply and to use its existing water resources more efficiently, including through regional cooperation. An ambitious project – the Red-Dead Sea Canal - has been suggested. This project calls for the transfer of water from the Red Sea to the Dead Sea, and includes installing desalination and hydroelectric capacity aimed to increase water availability and power to Jordan, Israel, and West Bank/Gaza Strip.

13. The government has taken note of several sectors as having promoting growth potential: Jordan's information technology (IT) market as a whole, is growing at an impressive rate of between 15 and 30% annually. With an increasing number of IT firms expanding into the export market, software and IT services exports are growing at an excellent rate. Other sectors of interest in Jordan include its obvious Tourism sector, Agro Food, Dead Sea Cosmetics, Dimension Stone, Olive Oil, as well as Pharmaceuticals.

14. Data for Jordanian trade balance show that, despite the surging deficit, the export performance is being strong, in both re-export and domestic goods. The strongest export sector in 2005 continued to be the garment one, followed by fertilisers, pharmaceuticals and potash. US continue to be the main customer for

⁷ WG Recommendations, www.oecd.org/mena/investment.

⁸ IMF – Jordan Selected economic indicators, May 2006.

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Jordanian goods, followed by Iraq and India. Indeed, in 2000 the United States and the Hashemite Kingdom of Jordan signed the *U.S.-Jordan Free Trade Agreement (FTA)*, which entered force in December 2001. The FTA mandates that a free trade area between the two countries will be attained following a gradual phasing out of import duties and other trade barriers over ten years. The agreement incorporates labor, environmental and intellectual property rights provisions.⁹ As a result of the progress in the implementation of the FTA, approximately 96% of the Jordanian exports to the US are now duty-free. A *Bilateral Investment Treaty* between Jordan and the United States entered into force in 2003. The agreement provides reciprocal protection of Jordanian and U.S. individual and corporate investments.

15. An economic association agreement between Jordan and the European Union that establishes free trade over a twelve-year period entered into force in 2002. This agreement calls for the free movement of capital, as well as cooperation on development and political issues.

16. The government also has liberalized the trade regime sufficiently to secure Jordan's membership in the WTO (2000).

17. Jordan is a member of a pan-Arab accord on facilitating the movement of capital between Arab countries. Countries that have signed the accord include Jordan, UAE, Bahrain, Tunisia, Saudi Arabia, Iraq, Oman, Kuwait, Libya, Egypt, Morocco, Qatar, Syria, and Lebanon. In 2004, Jordan signed a Free Trade Agreement with Singapore. In the same year, Jordan completed the Agadir trade agreement with Egypt, Morocco, and Tunisia and upgraded its trade agreement with Israel to take advantage of accumulation of content provisions in the EU's Pan-Euro-Mediterranean trade rules of origin.¹⁰

18. Exports of textiles and garments manufactured in the Qualifying Industrial Zones (QIZ) (which entered the United States tariff and quota free since 2000), have continued to show their worth in driving trade and economic growth. There are currently 13 QIZs, three of which are publicly owned; the remaining ten are privately owned. As of December 2004, the bulk of QIZ exporters have been concentrating on garment exports. Since 1999, the QIZs have attracted US \$450 million in capital investments, generated over US \$2 billion in exports to the U.S., and created over 40,000 new jobs. Focus has lately been on diversifying the Jordanian economy to move away from its traditional reliance on exports of phosphates and potash, overseas remittances, and foreign aid.

19. On the other hand, trade balance has declined because of a high rise in merchandise import spending, due mainly to the higher fuel costs, but also to the marked increase in spending on capital goods triggered by the strong economic growth. In 2005, the increase in non-oil import spending has been also related to the high influx of Iraqis into the country, bringing substantial resources to finance their daily life; estimates of Iraqis who are now resident in Jordan – permanently or temporarily – range from 250,000 to as many as 1 million.¹¹

20. Jordan has, during the past three years, worked closely with the IMF, practiced careful monetary policy, and made substantial headway with privatization. According to the last *Public Information Notices*

⁹ The 'U.S.-Jordan FTA is the United States' third free trade agreement, following the U.S.-Israel Free Trade Agreement and the North American Free Trade Agreement with Canada and Mexico and it's the United States' first agreement with an Arab country. The U.S.-Jordan FTA demonstrates the United States' support of Jordan's domestic economic reforms, encourage efforts by other Middle East countries to open their economies and to enhance regional stability.

¹⁰ See also www.jftp.gov.jo

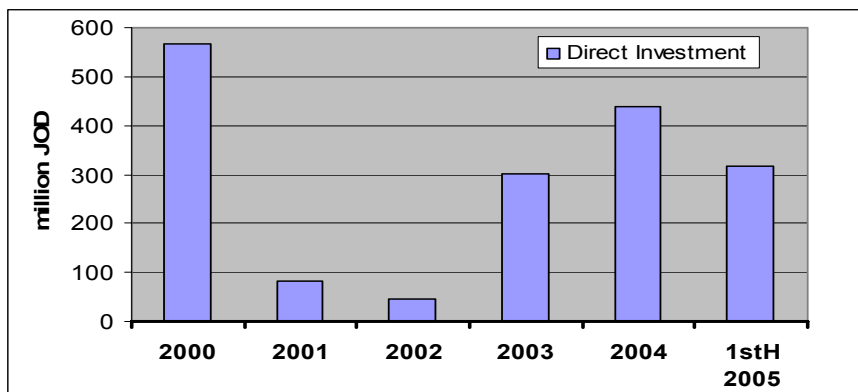
¹¹ Source: EIU, Country Report March 2006.

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issued by IMF on conclusion of the Third Post-Program Monitoring, IMF Executive Directors welcomed Jordanian robust economic performance in 2005 and commended the authorities for the strong fiscal measures taken in 2005, supported by a tight monetary policy. The Fund has also encouraged the authorities to accelerate structural reforms to improve competitiveness and export capacity. This included steps to strengthen the investment climate for export-oriented activities, including those in the Qualified Industrial Zones.¹²

21. Foreign investment inward flows and stock in Jordan have been growing during the last years, except for a temporary hollow during the first two years of the new millennium. However, the outflow of investment from Jordan continues to be low. According to the latest UNCTAD report, in 2004 Jordan was the 48th country among 140 in the world in attracting FDI; a large increase in ranking position from the previous year. The potential place of Jordan in the FDI inflow ranking was estimated only at place 60.¹³

Figure 1. Balance of Payment - Jordan: Financial Account 2000 - 1st half 2005



Source : Central bank of Jordan,2005.

¹² 'IMF Executive Board Concludes Third Post-Program Monitoring Discussions with Jordan' *Public Information Notice (PIN)*, May 23, 2006

¹³ UNCTAD, World Investment Report 2005.

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Table 1. Jordanian FDI Flows, 2005*

FDI Flows million of dollars	2001	2002	2003	2004
Inward	120	64	424	620
Outward	9	25	3	-

Source : UNCTAD World Investment Report 2005.

* Three-year moving averages, using data for the three years ending with the year in question.

Table 2. Jordanian FDI Stock*

FDI Stock million of dollars	1990	2000	2003	2004
Inward	615	2 272	2 880	3 501
Outward	16	-	-	-

Source : UNCTAD World Investment Report 2005

* Three-year moving averages, using data for the three years ending with the year in question.

Table 3. Inward FDI Performance Index Rankings 1990-2004*

	1990	2000	2003	2004
Jordan ranking	75	37	79	48

Source : UNCTAD World Investment Report 2005

*Index covering 140 economies.

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Table 4. Inward FDI Potential Index Rankings 1990-2003*

	1990	2000	2002	2003
Jordan ranking	61	60	61	60

Source : UNCTAD World Investment Report 2005

*Index covering 140 economies, and based on 12 economic and policy variables.

Business Regulations

22. The World Bank’s Ease of Doing Business Ranking puts Jordan on 74th place for ‘doing business’ in the world.¹⁴ The best rankings for Jordan is related to *tax paying* (15th in the world); entrepreneurs doing business in Jordan must make 10 payments, spend 101 hours, and pay 39.8% of gross profit in taxes.

23. *Getting credit* and *trade across borders* are ranked well (65th and 61st respectively). The former is calculated by considering measures on credit information sharing and the legal rights of borrowers and lenders in the country.¹⁵ The latter takes into account the costs and procedures involved in importing and exporting a standardized shipment of goods in the country. Expected time is 28 days for both export (with 7 documents required) and import (12 documents). Every official procedure involved is recorded - starting from the final contractual agreement between the two parties, and ending with the delivery of the goods.

24. With regard to *starting business*, Jordan is ranked at the 119th place. The challenges of launching a business in Jordan, according to WB report, are mainly related to the number of steps entrepreneurs should go through to launch a business (11), time required (over 36 days on average) and costs, equal to 45.9% of gross national income per capita. They must deposit at least 1011.6% of GNI per capita in a bank to obtain a business registration number.

25. With particular regard to foreign participation, the findings on the competitiveness of the Jordanian market in certain sectors to foreign investments. On a general ground, it points out improvements in market access issues pertaining foreign equity, number of providers and investment size, all regulated by one piece of legislation: the Regulating of Non-Jordanian Investment regulation. The deregulation due to the lack of some detailed legal instruments could cause some impediments, but on the other hand this can be also an advantage since it leaves room to introduce international best practice in new legal tools, rather than updating old ones. Many laws and regulations are in fact outdated and require substantial updating. Therefore, the major challenge for Jordanian authorities is streamlining many

¹⁴ Source: ‘Doing Business 2006’, World Bank and IFC co-publication.

¹⁵ The Legal Rights Index is ranged 6 (ranges are from 0-10, with higher scores indicating that national laws are better designed to expand access to credit); the Credit Information Index is equal to 2, measuring the scope, access and quality of credit information available through public registries or private bureaus.

requirements and facilitating to cut down on paper submissions, excessive administrative reviews and false safeguarding measures.¹⁶

26. As general requirements, foreigners willing to invest in Jordan need to establish a juridical entity, to be registered at the Ministry of Industry and Trade; this can be done either participating with a local in establishing a new Jordanian company or establishing a foreign company which operates for a limited or permanent period according the tender or license awarded. The above mentioned 'Regulating Non-Jordanian Investment' determines sectors in which foreigners are allowed to invest, fully or under certain limitations.

27. For instance, a 50% threshold for non-Jordanian ownership is given to engage in services related to purchase of goods for resale or lease, import-export, wholesale or retail, distribution and bulk supply of materials. The same applies for services pertaining to commercial agency and intermediary, constructions contracting and related engineering services and technical experimenting for constructions and building sector. In manufacturing services, instead, foreigners can have 100% ownership. However, the Council of Ministers may allow (on arbitrary basis) a higher ownership percentage for non-Jordanians in big developmental projects and those of special significance. In any case foreign investments may not be less than Jordanian Dinars 50.000, with exception of investments in public shareholding companies.

28. Investments in some sectors can also benefit from some tax and custom exemptions. In particular investing in industry, agriculture, hotels, hospitals, maritime transport and railroads entitles for income and social services tax exemption – depending also on the development area in which the project is located (divided in 3 areas) – as well as exemptions of customs duties on the fixed assets of the project (when imported into the country within a period of three years from the date of approving the project's lists of fixed assets).

29. About zoning and requirements in general all construction works, zoning or using of lands are not allowed unless after obtaining a license from the local or province zoning council (municipal councils). Purchase of lands by juridical persons is only allowed for purposes of business administration, upon the Minister of Finance's approval and according to the size of the land. For lease of lands, non Jordanian juridical entities may lease immovable property for purposes of work or residency. In all cases, acquisition of lands is dependent on beginning of project for which purchase of land was allowed within a specified period.

30. Other permits foreigners should take into account before investing in Jordan, concern health (under responsibility of the Ministry of Health), safety (Civil Defense General Department) and environmental issues (Ministry of Environment), although no specific regulations related these matters have been issued; these seem to be under jurisdiction of each pertaining authority.

31. In order to improve the situation, IFC PEP-MENA launched a Business Regulatory Reform Program to simplify the regulatory processes and regulations at the municipal, provincial or state level across the MENA region. The program objectives are to support the development of streamlined and transparent procedures, reduce the cost and time of compliance, and improve the growth potential for firms. In Jordan, the Program will launch a Licensing and Inspection Reform Project with the objective of supporting the Government of Jordan in implementing a comprehensive licensing and inspection reforms.

¹⁶ IBLAW, Report prepared for UNIDO/ITPO Jordan (2006), see Annex III.

Key components and incentives of existing investment law

32. Restrictions on foreign direct investment in the Jordanian economy (outside the zones) under the existing Investment Law include the following:

33. *General restrictions on entry.* There are no general restrictions on foreign ownership of Jordanian companies. Neither is there any formal screening or host government selection process for foreign investment. The amount of investment in any one project must total at least JD 50,000.

34. *Sectoral restrictions on entry.* Foreign investors may not own more than 50% of projects in: construction and contracting; wholesale and retail; sea, air and train transport; wastewater treatment; food services; travel agencies; import and export services; advertising; and a number of business-related and commercial services (including finance). No foreign participation is allowed in: security services; sports clubs; stone quarrying; customs clearance services; and land transport other than trains.

35. *Land ownership.* Non-Arab foreign nationals are permitted to own or lease property, provided that their home country does not discriminate against Jordanians. The Cabinet is the authority on licensing foreign ownership of land and property.

36. *Repatriation of investment and profits.* Foreign investors are entitled to remit abroad, in convertible currency, foreign capital invested, including returns, profits and proceeds arising from the liquidation of investment projects.

37. Elements of the tax regime applying to foreigners or foreign-owned enterprises in the Jordanian economy include:

38. *Corporate income tax rates.* Income tax on corporations has been reduced to promote private sector investments. Tax rates are as follows: 15% on Mining, hotels, industry and private hospitals and hotels, 35% on insurance, financial institutions and banks, 25% on trade and other non-financial services. Income earned from exports are totally exempt from income and social services taxes, and imported raw materials used to process goods for export are not subject to customs duties

39. *Personal income taxes and social contributions.* The personal income tax system is progressive, with rates starting at 5% and ending at 30% the enterprise pays 10% of the total wage to the government as social security tax while the employee contributes 5% of his total wages to the social security fund, A recent controversial draft law changing this arrangement was defeated in the Jordanian Parliament last year, and new proposals are proving equally controversial.

40. *Property tax.* A tax on commercial property is levied at a rate of 15% of the rental value¹⁷.

Investment incentives in the overall economy

41. A large number of incentives schemes are generally available to investors in Jordan depending on a number of considerations, such as location, size, and sector in the existing Investment law:

¹⁷ However, the rental value of owner-occupied property is presently assessed extremely conservatively. The taxable value of such property has only increased by 12.5% over the past 20 years and is considered to represent only a fraction of the market value (Chen, 2004).

42. The country is divided into three development areas, Zones A, B and C. Investment in Zone C, the least developed part of the country, receive the greater incentives. Exceptions from income and social services taxes are granted for a period of up to ten years for projects approved by the Investment Promotion Committee (IPC): 25% exemption in Zone A; 50% in Zone B; 75% in zone C. An additional year of exemptions is granted to projects each time they undergo an expansion resulting in a 25% expansion of their proactive capacity for a maximum of four years.

43. A corporate tax holiday from 2 to 12 years may be offered to investors.

44. Capital goods are exempt from duties and taxes if delivered within three years of the date of IPC's approval. Moreover, capital goods used for expansion and modernisation of an existing plant are exempt, provided they result in at least a 25% increase in capacity.

45. Industrial projects are granted property tax exemptions throughout their lifetime. They are also exempted from most municipality and planning fees.

46. Exporters enjoy a full exemption of net profits generated from most export revenues from corporate income taxation. Foreign inputs used in the production of exports are exempt from custom duties and import fees.

Zones and their main characteristics¹⁸

47. As per early 2005, Jordan has one special economic zone (SEZ) and six public free zones. The SEZ was established in 2001 by greatly enlarging the old (established in 1973) Aqaba Free Port to encompass the surrounding urban area, and transferring economic regulatory responsibility for the Zone to the newly established Aqaba Special Economic Zone Authority (ASEZA).

48. The free zones are administered by the Jordanian Free Zones Corporation and are subject to broadly similar regulatory conditions. The oldest, and economically most important, is the Zarqa Free Zone 35 km northeast of the capital Amman. Common to all economic zones in Jordan is a broad sectoral scope. Zones are generally open to companies involved in industrial production, trade, tourism and other services. In addition to the public free zones, private free zones, often tailor-made to one specific company, can be established subject to the approval of the Council of Ministers. Currently the Free Zones Corporations counts 23 such private zones in Jordan¹⁹.

49. An interesting recent development relates to the development of the so-called Qualified Industrial Zones (QIZ), which essentially extends the benefits of the US-Israel Free Trade Agreement Implementation Act of 1985 to include exports from geographically circumscribed areas in Jordan. The QIZ rules stipulate that a minimum of 35% of the exported goods' value must represent local content.

¹⁸ Main sources: www.free-zones.gov.jo and www.aqabazone.com. Outside the zones authorities have at their discretion the granting of partial corporate income tax exemptions for a period up to ten years, selected economic activities (notably in manufacturing) enjoy preferential tax treatment, and the import of capital and input goods is generally exempted from duties.

¹⁹ Free Zones Corporation (2003).

Incentives and quasi-incentives in the Zones

50. In addition to the incentives, authorities also provide streamlined registration and other administrative procedures inside the zones to raise transparency and minimise red tape. Modern power grids, telecommunications infrastructure, road networks and water supply are assured inside the zones.

Institutions

51. Jordan is currently in the process of reorganizing and defining the different mandates of its investment-related bodies responsible for dealing with the private sector, and with attracting further FDI's to Jordan in general. The agencies concerned are the Jordan Investment Board (JIB), the Jordan Enterprise Development Corporation (JEDCO), as well as both the Industrial Estates Corporation, and the Free Zones Corporation. The main suggestion put forward was to group all development entities under one umbrella known as the Jordan Authority for Enterprise Development (JAED).

52. Finalizing the on-going debate on reorganization of these institutions, and implementing an agreed upon division or merge of labor for these institutions is crucial in order to move forward from what may start to cause a bottleneck situation for the private sector when dealing with the current structures in place.

53. The Jordan Agency for Enterprise Development (JAED) is an entity that was originally suggested by the Economic Consultative Council in 2002. At present it acts as a think tank for Government, however is currently pending the appointment of a successor to its former CEO and a decision on its future role within the current reorganization of the different public sector institutions currently underway in Jordan.

54. Jordan Enterprise Development Corporation (JEDCO) was established through decree of the Council of Ministers on 12 June, 2003 to legally replace the Jordan Export Development and Commercial Centers Corporation. The overall goals are trade promotion, export development, and the development of enterprises and companies.

55. The Jordan Investment Board (JIB) is the main government agency responsible for promoting and facilitating investment in Jordan. Since its establishment in 1996, the investment board has set the modernization of the Jordanian economy as its prime goal; its priority is to improve the quality of services provided to investors. JIB plays a significant role in developing the investment climate in Jordan through facilitating and promoting business opportunities and linking business parties together. Its mandate covers:

- Enhancing confidence in the investment environment, identifying investment opportunities, promoting these opportunities and motivating investment therein.
- Simplifying the registration and licensing procedures of investment projects, following-up existing Projects, and giving them priority in the finalization of applications to official authorities.
- Operating the One-Stop-Shop at the JIB which undertakes licensing investment projects and obtaining approvals on such projects from other authorities pursuant to the legislations in force.
- Giving advice, providing available information and data for investors, and issuing related guides.
- Setting and implementing investment promotion programs to attract investors to the Kingdom.

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Promoting Investment in Jordan

	Jordanian Authority for Enterprise Development (JAED)	Jordanian Enterprise Development Corporation (JEDCO)	Jordan Investment Board (JIB)
Status	Official public corporation guided by progressive regulations	Official public corporation guided by progressive regulations	Official public corporation established under an institutional law guided by progressive regulations
Functions	Develop enterprise strategy and policy recommendations, coordinate and evaluate the performance of implementing entities, and review Jordan's international competitiveness continuously and intensively.	Promote and facilitate enterprise and export development by Jordanian companies and implement national linkage program	Promote and facilitate inward direct investment
Connected to	Minister of Industry and Trade	Minister of Industry and Trade	Minister of Industry and Trade
Chairman	non-executive, from the private sector	non-executive, from the private sector	non-executive, from the private sector
Funding	Directly from government	Directly from government	Directly from government

Source : USAID, AMIR Programme, 2005

56. The JIB has been investing extensively on image building. It opened its one stop shop in 2004 on the margins of the World Economic Forum (WEF) to service investors within 14 working days. The **OSS** provides the following services:

- Identifies investment opportunities
- Facilitates the registration and licensing of investment projects according to the Companies Law
- Gathers investment data and technical information and shares them with interested investors
- Assists the investor in finding a location for business operations
- Arranges meetings between potential private sector partners and government officials
- Provides ongoing support and problem solving for the project once it is established

- Facilitates arrival and departure of the investor in transit through the Queen Alia International Airport.²⁰

International Investment Agreements

57. The majority of the MENA countries' investment laws include legal guarantees against expropriation. Equally, international investment agreements concluded by MENA countries (BITs, ICSID subscription) provide for guarantees in the case of expropriation. These agreements tend to preserve the international minimum standard, according to which expropriation is only lawful when it is carried out for a clear public purpose, without discrimination and upon payment of 'prompt, adequate and effective compensation'.

58. Overall, MENA countries participating in the *Investment Programme* have concluded around 409 bilateral investment treaties with OECD countries. Figure 2 below shows that with the exception of Bahrain, Syria and Yemen, MENA countries have been following the global trend, by concluding an increasing number of Bilateral Investment Treaties (BITs). This certainly underlines the importance that MENA countries increasingly attach to foreign direct investment. The following graph also illustrates that while the number of Bilateral Treaties signed by MENA countries with OECD-member countries rose quite significantly, it did not rise as substantially with respect to bilateral treaties concluded within the region. This phenomenon corresponds to the overall difficulty of trade and commercial relations in the region. Nonetheless, the numbers of MENA BITs signed annually increased from the mid-1990s onwards, peaking at 45 new treaties in 2001. Jordan is one of the countries with the most intra and extra regional BITs signed.

59. Jordan acceded to the WTO in 2000 and the Free Trade Agreement (FTA) with the U.S. entered into force on December 17, 2001.

60. The FTA eliminates duties and commercial barriers to bilateral trade in goods and services originating in the United States and Jordan. The FTA also includes provisions addressing trade and environment (Article 5), trade and labour (Article 6), and electronic commerce (Article 7). Other provisions address intellectual property rights protection (Article 4), balance of payments (Article 11), rules of origin (Article 14), safeguards (Article 10) and procedural matters (Articles 16 and 17).

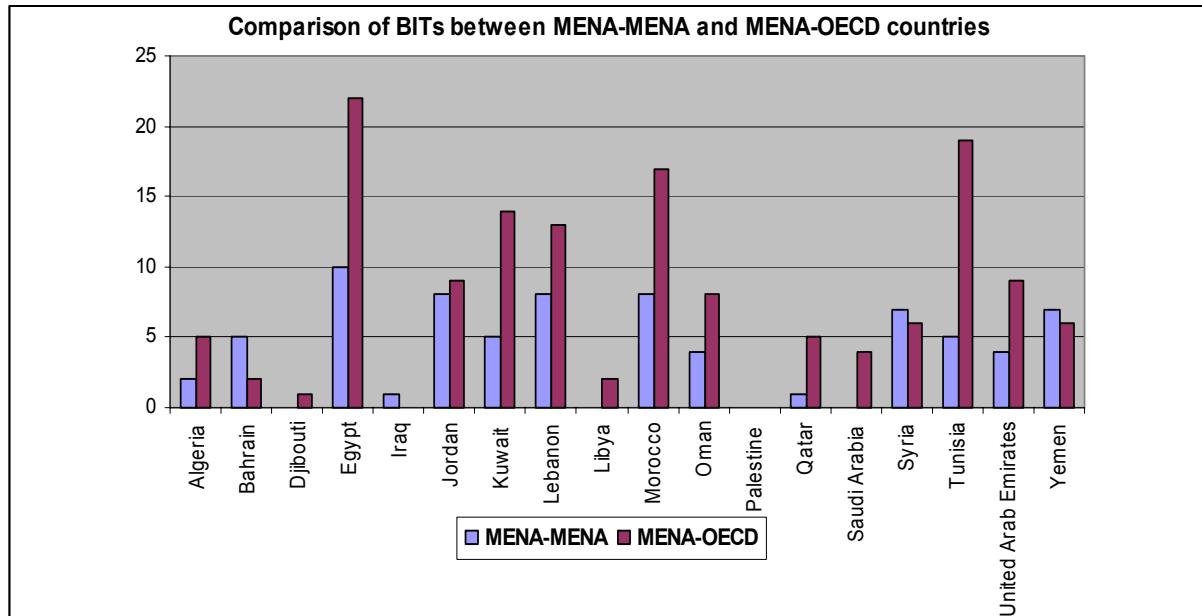
61. Because the United States already has a Bilateral Investment Treaty with Jordan²¹, the FTA does not include an investment chapter.²² Rules of Origin are specifically applied to the FTA in order to determine from what country a product is imported, especially when two or more countries contribute to the production of the product. Production of the product includes material as well as labour. The rules of origin are designed to ensure that the benefits of the agreement specifically benefit Jordan and the United States and to prevent third country producers from passing their goods through the United States or Jordan to obtain the duty-free benefits of the FTA.

²⁰ See www.jib.com.jo

²¹ For details on the Jordan-US BIT see www.jordanusfta.com/documents/bit.pdf

²² US Government Export Portal <http://www.export.gov>

Figure 2. Bilateral Investment Treaties



Source: OECD 2005, UNCTAD 2004.

62. The Euro-Mediterranean Association Agreement with Jordan²³ was signed in 1997, entering into force in 2002, after replacing the Co-operation Agreement of 1977. The Association Agreement is part of the bilateral track of the Euro-Mediterranean Partnership and provides a comprehensive framework for the economic, political and social dimensions to the EU-Jordan partnership. The main aim of the Association Agreement is to create a free trade area between the EU and Jordan over a period of 12 years, and help increase economic growth for the businesses community.

63. Jordan is among the five countries which have adopted a European Neighbourhood Policy Action Plan in 2005 to cover an agenda for the political, social, and economic fields, towards sharing common values with the EU.

64. Through the ENP Action Plan Jordan and the EU have set up joint working groups in key areas including in trade, investment, and social affairs. Jordan is the first partner in the region to set up a joint working group with the EU on human rights. In addition, it has already established a human rights centre and has made progress on supporting press freedoms. The Action Plan sets goals for Jordan to:

- Take measures to improve business conditions to enhance growth and increase investment in Jordan
- Take steps to prepare for a progressive liberalisation of trade in services
- Strengthening banking regulation and supervision

²³ European Commission http://ec.europa.eu/comm/trade/issues/bilateral/countries/jordan/index_en.htm

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- Develop a strategy to promote domestic investment and attract foreign investment to Jordan, including regulatory simplification, administrative facilitation, training of operators, and extension of commercial representation within the EU.
- Develop a business to business dialogue and contacts between investment promotion agencies to identify investment opportunities and obstacles
- Ensure that interested Jordanian private sector associations, representing the majority of private sector operating in Jordan in accordance with national law and regulations are given an opportunity to comment on new draft legislation
- Remove obstacles to the establishment and operation of companies
- Gradual abolition of restrictions on supply of services
- Development of financial services
- Further development of the tax system and its institutions

III. The Emerging Foreign Investment Legislation

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

66. Besides this, foreign investment is regulated in the Aqaba Special Economic Zone by Regulation No (11), 2001 “Development and Improvement of the Investment Climate for the Aqaba Special Economic Zone”.

67. Early 2005, the Jordanian Minister for Trade and Industry proposed the introduction of a new Investment Promotion Law with a view to consolidate regulation and assessing the usefulness of exceptions, institutional structure of investment promotion and incentives provided.

68. The new draft Investment Law has been drafted by the Jordan Investment Board and is in the process of being shared with stakeholders for comments in preparation for eventual submission to Parliament in October of this year. The draft’s main provisions articulate granting the Jordan Investment Board (JIB) more specified tasks, with a legal framework that allows for diversifying its financial resources, and most importantly, expansion into newer identified strategic sectors for Jordan; such as information technology, research and development, vocational training, and energy, with the possibility to expand into other sectors in the future.

69. The proposed changes on the institutional system of investment promotion include restructuring and activation of a board of directors, which proposed the inclusion of the Ministry of Planning, Ministry of Labour, Ministry of Finance, and the private sector. This board of directors is entitled to make recommendations to the council of ministers to provide privileges or special exemptions for certain investment activities whether included within the specified sectors or otherwise. This is dependent on such projects or activities’ potential to generate local employment opportunities, or other developmental activities.

70. Changes to the incentive scheme have been proposed through two clauses, one increasing the percentage allowance of the value of fixed assets on imported spare parts for projects from an allowance of 15% to 30% of the value of the fixed assets for which they are required, and the second by giving the council of ministers broader authority to grant “special privileges and exemptions” to any project that it deems entitled regardless of whether the sector is covered by the law or not.

71. It is envisaged that regardless of the customs law, and general and income tax laws, exemptions or privileges granted to projects within the context of this draft law is to supersede other laws.

72. Apart from these effects the following will briefly discuss the impact of the new draft law on key parameters of the investment climate, including issues as investor guarantees, transparency of remaining restrictions to FDI, investment screening and approval procedures, foreign exchange regulations, access to land, regulatory transparency and business integrity.

Investor Guarantees

73. Barriers to the establishment and operation of partly or wholly foreign-owned enterprises have been steadily lowered in the MENA countries. Restrictions on foreign ownership of enterprises have been

relaxed, as have those on foreign ownership of land and real estate and on foreign purchases of shares on local stock markets. In some MENA countries, foreigners may participate in the privatisation of state-owned enterprises. The willingness of most MENA countries to commit themselves to protecting foreign investments is demonstrated by the increasing number of bilateral investment treaties, signed in recent years as well as protection and guarantee provisions in their investment laws. Nonetheless, it must be noted that certain countries have not yet granted these guarantees to foreign investors in their investment laws.

74. The Investment Promotion Law No. 16 of 1995 states in *Article, 24b*: "... the Non-Jordanian Investor investing in any Project governed by this Law shall be afforded the same treatment as the Jordanian Investor." *Art. 25*: "It shall not be permissible to expropriate any Project or to subject it to any measure that may lead to expropriation, unless such expropriation is done by way of compulsory purchase for the purposes of public interest, and in return for a just compensation to be paid to the Investor. The compensation paid to a Non-Jordanian Investor in such case shall be in a convertible currency."

75. The new draft Law contains this same article with the exception that it has removed the National Treatment Clause indicating that foreign investors being afforded the same treatment as Jordanian Investors.

Positive List vs. Negative List

76. The majority of MENA countries rely on a **positive list** approach in their presentation of the investment environment to foreign investors. While several MENA countries publish lists of sectors which are closed to foreign investment (refer to Table 1), none is understood to operate a system whereby all sectors absent from such a list are automatically fully open to foreign investment. Some countries list explicitly in their investment laws or on Internet homepages information about the sectors which are not open to foreign investors. Typically, sectors not listed are fully or listed with restrictions are open to foreign investment. Greater transparency is necessary at the establishment stage, but it is equally required when the business begins to operate and encounter specific legal issues in so doing. Within the OECD member countries, the National Treatment approach of the OECD Investment Committee obliges adhering countries to notify their exceptions within the OECD framework.

77. Certain MENA countries provide a '**list of FDI restrictions**' in the manner outlined in their investment laws or publicly accessible information sources. To our knowledge this transparent approach is currently followed by Bahrain, Jordan, Qatar, Tunisia and Saudi Arabia, which effectively comprises 27% of the 18 participating Middle Eastern Countries. The new draft Investment Law maintains the transparent negative list approach.

Investment Screening and Approval Procedures

78. Investment screening and approval procedures have been simplified in many MENA countries' investment laws. However, despite these improvements, special screening procedures for foreign investment remain in place in a number of countries for all sectors or for specific sectors. In some countries, the motivation behind the institutionalisation of special procedures for FDI remains an interest in ultimately controlling sources and nature of incoming investment flows. Other countries, including Egypt and Jordan use screening and approval procedures with a different motive: to decide on whether to grant preferential treatment to foreign investors. In general, three scenarios can be detected in the application of FDI screening procedures in the region: in certain countries, all sectors are subject to approval requirements, in others only specific, strategic sectors are subject to such requirements. A third scenario, which manifests itself in countries such as Jordan, Egypt or Bahrain is that additional approval procedures

are required (as compared with national treatment) when a company wishes to apply for certain incentives under the applicable investment laws.

79. While screening of foreign investment is one of the most widely used techniques for controlling the entry and establishment of foreign investors in host states, it can create unnecessary impediments and should be restricted to sensitive sectors. Often, a specialised investment review agency deals with the screening and approval procedure using a process which tends to be highly discretionary, lacking overall transparency and the possibility for an investor to claim effective judicial review. If screening procedures were to remain, MENA countries employing such procedures should consider offering rights of judicial review to investors against decisions by the review agency. A further transparency-enhancing measure would be to issue clear administrative guidelines for the decision-making process so as to increase the predictability of the final decision to the investor. It would be also beneficial both from the perspectives of transparency and simplicity if all investment screening procedures were included in the general investment law or referred to within the body of the latter. This measure would avoid potential situations whereby no prohibitions or restrictions are indicated in the general investment law, yet additional procedures exist within the body of other applicable legislation.

80. Regarding approval requirements in Jordan, the screening of projects is done by Ministries and agencies who deal with the registration and licensing of projects. Projects in specific sectors laid out in the Investment Law enjoy exemptions and incentives. For this purpose the Investment Promotion Committee reviews applications submitted by investors and decides on them within a period of thirty days.²⁴ The new draft investment law is not changing this approach.

Foreign Exchange Regulations

81. Recent years have witnessed a substantial liberalisation of foreign exchange regimes, and the MENA countries following this trend to some extent. In particular, all the MENA countries in this study except Egypt and Syria have obtained IMF Article VIII status, indicating that they have removed restrictions on payments and transfers relating to current transactions, including repatriation of profits. Generally, MENA countries vary in the degree to which foreign investors may freely repatriate capital. Several MENA countries also allow unhindered repatriation of capital without restriction. Thirteen of the MENA countries (Bahrain, Djibouti, Egypt, Jordan, Kuwait, Lebanon, Oman, Qatar, Saudi Arabia, Tunisia and United Arab Emirates, Iraq and Libya) report that they allow repatriation of capital without restriction, whilst Algeria, Morocco, Syria and Yemen, operate restrictions of varying depth. No publicly available information with respect to this regulation exists in the Palestinian Authority at the moment.²⁵

82. The new draft Jordanian Investment Law maintains the clauses of the old law granting freedom of repatriation of capital.

Access to Land

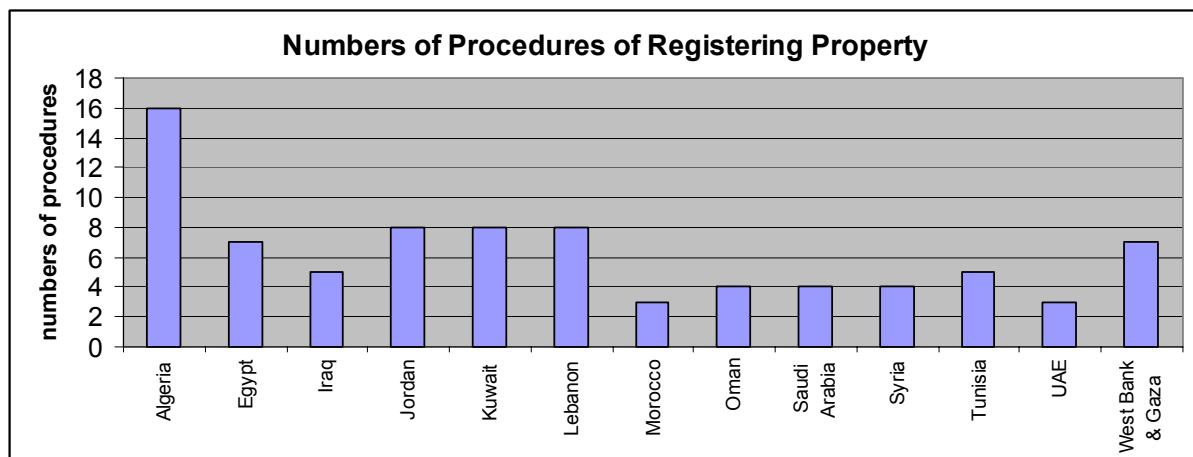
83. The ease of acquiring real estate and land is of major importance for attracting investment, both foreign and domestic. In the case of foreign investors, the process is often more circuitous than for local residents. Figure 12 below shows the number of procedures an investor has to go through in order to acquire real estate in each MENA country. As shown, Algeria demands 16 procedures in the acquisition

²⁴ Article 22 Law No. (16) of 1995 and its amendments for the year 2000, The Investment Promotion Law, Jordan. For further details see Annex III.

²⁵ IMF (2005), *Annual Report on Exchange Arrangements and Exchange Restrictions 2004*.

process, while Morocco and the United Arab Emirates demand 3. These types of bureaucratic hurdles can ultimately affect the destination of international capital.

Figure 3. Real Estate Acquisition



Source : World Bank, Doing Business in 2006, Creating Jobs.

84. Non-Arab foreign nationals are permitted to own or lease property in Jordan, provided that their home country does not discriminate against Jordanians and the property is developed within five years from the date of approval. The Cabinet is the authority on licensing foreign ownership of land and property. Agricultural land is not included in the provisions of this law. However, a foreign company that invests in the agricultural sector in Jordan automatically obtains national treatment with respect to ownership of agricultural land, once registered as a Jordanian company.²⁶ In general, purchase of land is allowed only if reciprocal agreements exist and Cabinet approval is obtained.²⁷

Regulatory Transparency

85. Even in the absence of formal market entry restrictions and discrimination against foreign investors, non-transparent regulatory systems may serve as equally efficient hidden barriers to investment. The relevance of this observation to the MENA region has been highlighted in a statement of the OECD business community addressed to the first meeting of the MENA-OECD Investment Programme in Amman in June 2000, which emphasized that:

“Investors seek markets which are stable, transparent and predictable to give them the confidence to take the risks inherent in investing capital. International provisions on transparency for investment, demonstrating commitment to multilateral disciplines, would not and cannot by themselves produce investment flows. They can aim at making positive investment decisions easier, though. Thus, transparency should be a cornerstone of multilateral efforts enhancing investment.”

²⁶ United States Commercial Service.

²⁷ IMF (2005).



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86. The statement by the OECD business community is in line with the organization's focus on developing a transparent business environment not only in the MENA region, but also globally, as documented and concretized in the following set of guidelines.

Box 1. OECD Investors' Recommendations on Transparency

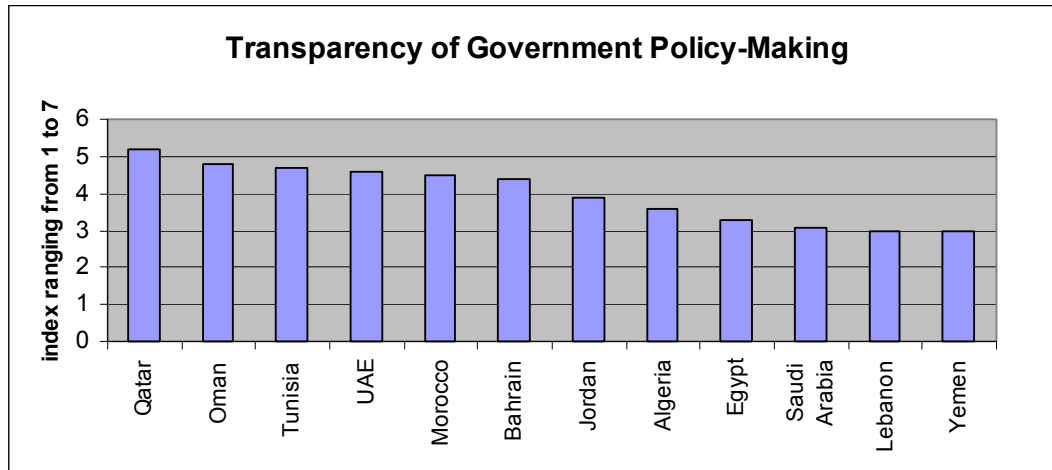
- Governments, at all levels, should take steps to insure that:
- Existing rules and regulations are readily accessible to and understandable by members of the public;
- Notice is provided to the public at an early stage of proposals that introduce new rules or change existing rules;
- Proposals to change existing rules or to introduce new rules provide sufficient time for the public to submit comments in a pre-determined manner;
- The public is provided with an explanation as to the reason(s) why the rules are being changed/introduced and the goals and objectives that are to be met;
- The public is invited to submit comments prior to decisions being taken and there is evidence that comments are seriously considered before regulations are finally issued;
- Points of enquiry are established to respond to the public for information (single window approach);
- The new rules or changes in existing rules are clear and understandable to insure predictability of success and to provide affected individuals with the necessary information to comply and
- A reasonable period of time is provided to allow affected persons to prepare for implementation.

87. Not only is public sector transparency beneficial to investors, it also fosters economic development through more effective public governance. Enhanced transparency requirements can positively influence public governance and investment attraction at all levels. Such transparency measures could potentially encapsulate:

- Inclusion of economic actors and civil society in the drafting process of regulatory requirements;
- Regulatory impact assessment for all laws and regulations at an early stage in the drafting process;
- Transparent parliamentary legislative procedures;
- Accessible and timely publication of the final laws and regulations;
- Access to information at all stages of the administrative implementation procedures.

88. Figure 4 portrays the perspective of foreign and domestic enterprises operating in the MENA region regarding the transparency of government policy-making in their countries including Jordan. The index is displayed in a ranked order, where a score of 7 implies that the business environment is entirely transparent, and conversely a score of 0 implies a complete lack of transparency.

Figure 4. Perception of Transparency in the MENA Region



Source: World Economic Forum, 2005.

89. Although a number of the MENA countries have made serious efforts to increase transparency of their foreign investment regimes, **for foreign investors in the region transparency still remains an issue of concern**. Generally, the transparency of foreign investment regimes varies widely among MENA countries. Therefore, with regard to access by foreign investors to information, lack of transparency constitutes still an additional obstacle to inward investment in MENA countries, which vary widely in the availability of up-to-date, accurate and relevant information. For example, while some countries provide detailed reports in response to a survey on investment restrictions conducted by the IMF²⁸ others supply cursory responses devoid of usable content. Similarly, a range of national government websites providing information of use to foreign investors extends from sophisticated sites containing relevant laws and regulations, details of establishment procedures and other useful content (usually in English or French as well as in Arabic) to sites with virtually no relevant information. As part of its WTO accession, Jordan introduced transparency measures in all its economic reform programs.

Business Integrity

90. Business integrity issues are increasingly regarded as a vital cornerstone of public sector transparency. This view is echoed, among other organisation, by the Arab Business Council's Task Force on Governance, which had asked its members to "...lobby to have all Arab Governments become signatories to the OECD Convention on Combating Bribery of Foreign Public Officials... [and to]...lobby to have exemplary legislation – perhaps developed together with the OECD and Transparency International - that effectively proscribes and combats corruption adopted by national legislatures in the Arab World."²⁹ Also, major business associations representing investors from the OECD countries highlight that "from a business point of view transparency reduces risks and uncertainties [...as well as] reduces opportunities for bribery and corruption..."³⁰

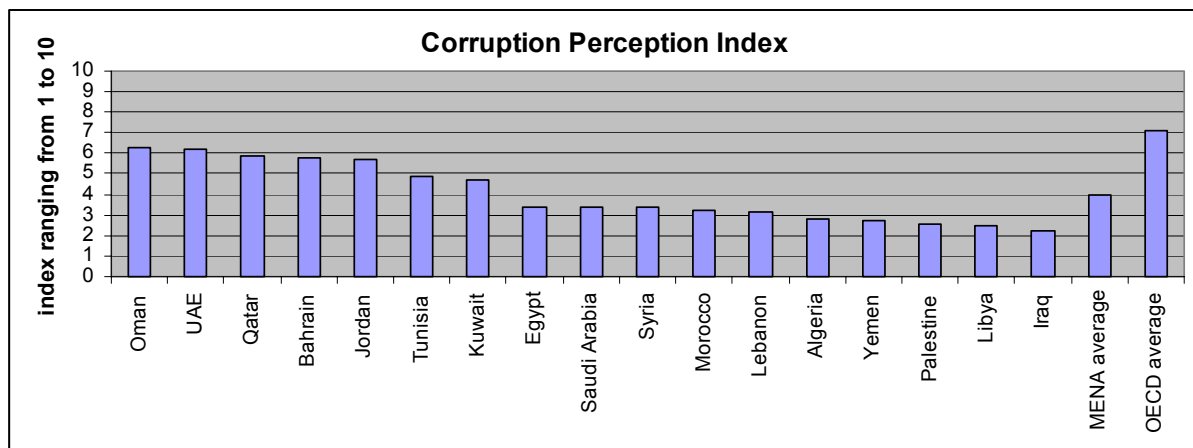
²⁸. Cf. IMF (2005), *passim*.

²⁹ ABC, Task Force on Governance, www.weforum.org/pdf/ABC/ABC_Governance_Marrakech.pdf.

³⁰ BIAC statement cited in OECD, *Public Sector Transparency and the International Investor*, 2003, p.8.

91. The perception of corruption differs among the MENA countries, as indicated by Figure 8 below (the lower the score, the higher the perception of corruption). While countries, such as Oman and United Arab Emirates are doing considerably better than for example Iraq and Libya, the existence of corruption in each MENA country poses a problem for the overall investment climate in the region. Preventing and curbing the occurrence of bribery has, therefore, been widely acknowledged as an important objective for MENA governments.³¹ In the Corruption Perceptions Index (CPI) 2005 Jordan scored well above the average in the region, and shows a slight improvement compared with last year and over the past attributed to its relatively liberal stance regarding political and social affairs, and numerous new laws based on international standards that have accompanied the reform process. As a result of the input of the Jordan Transparency Forum, Jordan will be the first Arab country to establish an independent agency to fight corruption.

Figure 5. Perception of Corruption by Country



Source: Transparency International, Corruption Perception Index, 2005.

92. Jordan has signed and ratified the United Nations Convention against Corruption (UNCAC). Jordan has established an Anti-Corruption Department of the General Intelligence Department and a Higher Anti-Corruption Committee. Active corruption, i.e. the giving of bribes or any other undue advantage to public officials, is penalized in Jordan, under article 172 of the Penal Code of 1970.

93. Jordan’s Anti-Corruption Department (ACD), has uncovered almost a hundred bribery cases since it was set up in 1996 and has also engaged in some activities with the private sector. Moreover, Jordanian newspapers inform of domestic corruption cases in which Jordanian public officials have been involved and the Qatar-based Al-Jazeera has become an increasingly popular source of views and facts on issues of public interest, including corruption. Furthermore, The Jordan Press Association has issued a “Code of ethics for Jordanian journalists.”

94. The Anti-Corruption Department of Jordan’s General Intelligence Department focuses on monitoring cases of corruption in the public sector. For example, according to official statistics, the Department handled 13 cases of bribery of public officials in 2004, compared to 20 and 15 cases in 2003 and 2002, respectively; some of them, which were referred to the public prosecution authorities, involved

³¹. Preliminary findings of a report prepared for Working Group 1, Output 3 of the MENA-OECD Investment Programme, p.6.

the giving of bribes by entrepreneurs to government officials and public employees. Among the bribery cases referred to court in 2002, one involved, for example, two owners of contracting companies who attempted to bribe a Jordan Electric Power Company employee with the objective of reducing their companies' electricity bills.

95. In Jordan, pursuant to the anti-money laundering regulations issued by the Central Bank of Jordan, banks are required to report suspicious transactions to the Suspicious Transactions Follow-Up Division (STF) established in 2004 within the Banking Supervision Department of the Central Bank of Jordan, establish internal control systems, appoint a compliance officer, provide continuous training for staff, monitor anti-money laundering compliance by internal audit departments, and keep transaction records for a minimum of five years. IMF Directors, in their last assessment on Jordan economy, has also welcomed the authorities' progress in the passage of the Anti-Money Laundering/Counter Financing Terrorism (AML/CFT) legislation.³²

IV. Financial Sector Development and Reform

96. While the level of development of financial markets in the MENA region and particularly in the Gulf witnessed significant developments and reform, MENA policymakers and regulators recognise that further reform will be necessary in order to deepen capital and bond markets. Institutions have been formed and efforts are underway to enact the necessary laws and regulations and to build relevant human resources within Ministries of Finance, Central Banks and supervisory agencies of MENA countries. Insofar as financial market development could make a contribution to increasing both the volume and efficiency of investment and increasing the participation/viability of SMEs in the economy, financial sector development remains an important means to increasing growth in the region.

97. The Jordanian financial sector has been developing rapidly, and presently boasts a relatively developed banking sector (particularly if judged by regional standards) and a robust capital market, whose capitalisation has recently surpassed 300% relative to the GDP. The legal framework surrounding the Jordanian financial sector is developed and includes the following key laws, among others: the Banking Law (2000), the Insurance Regulatory Act (1999), the New Securities Law (2002), the Deposit Insurance Corporation Law (2000), and the Credit Bureaus Law (2002).

98. A number of domestic and international programmes have been aimed at further developing the Jordanian financial sector, and in particular the insurance sector and the capacity of the banking sector to cater to the needs of the SMEs. The Financial Sector Assessment Program, an initiative of the International Monetary fund, completed its assessment in August 2003 to help identify areas for further reform. The FIRST Initiative, a World Bank programme, has commenced work in April 2005 on strengthening the Jordanian insurance sector. The following sections outline the trends, and developments in Jordanian, capital markets, the banking sector, and the private equity/venture capital industry.

Capital Markets

99. Jordan was among the few MENA countries to launch financial market reforms relatively early. As a result, Jordan has one of the most developed and fastest growing stock markets in the region. As of April 2006, the exchange trading volume of the Amman Stock Exchange (ASE) was 1358.8 million JOD, and a market capitalization - 24,696.5 million JOD. The role of the capital market in Jordan's national

³² IMF Executive Board Concludes Third Post-Program Monitoring Discussions with Jordan, *Public Information Notice (PIN)*, May 23, 2006

economy is highlighted by the Amman Stock Exchange's 302% ratio of market capitalization to GDP. This is one of the highest ratios among emerging markets, indicating both a well-established stock market and a relatively high level of securities trading.³³ The ASE, in line with other regional stock markets has displayed a record performance in 2005 with the price index, trading volumes, number of shares traded all at the highest level since it was established in 1978. The banking sector was the strongest performer, rising by 134% during 2005, while the index for insurance companies all but doubled, services increased by 78% and industry by 15%.³⁴ Additionally, the capital market has benefited and is expected to continue to grow as a result of ongoing privatisation.

100. The growth of the local stock exchange has been related to the reforms of the capital market supervisory framework and in particular the enactment in June 1997 of a modern Securities Law. The law separated the regulatory function from the technical side of the market and created a regulatory body (the Jordan Securities and Exchange Commission) with broad and well-defined powers over non-banking financial services, to organise, develop and monitor the securities market. The objectives of the new organisation and its legal framework are to adhere to internationally accepted and proven standards and practices to increase investor confidence and interest, standardise market practices and protect investor rights, among others.

The Banking Sector

101. The Jordanian banking sector has demonstrated especially strong in 2005.³⁵ The sector is relatively well developed, and is considered to be well regulated if somewhat less developed in terms of range of products and services necessary for private sector growth. The banking sector can be described as well performing, particularly with the issuance of a new Banking law in 2000. The Jordanian Banking Law provides the necessary regulations required for registration, outlines the law related to the organisation and management of banks, expounds the requirements and conditions for operation of banks, etc. The U.S. Department of Commerce reports that the banking law "protects depositors' interests, diminishes money market risk, guards against the concentration of lending, and includes articles on new banking practices (e-commerce and e-banking) and money laundering."

102. While this law has strengthened the regulatory framework, the banking system remains burdened by non-performing loans, estimated to account for as much as 20% of total outstanding loans.³⁶ Furthermore, in 2002 the Jordanian banking sector became engulfed in a scandal which indicated that stricter requirements for credit are required. IMF Directors have also supported the authorities' policy of closer supervision of banks and the monitoring of banks' exposure to the stock market. Regulators have been likewise recommended to operate cautiously in licensing of new banks.

Financial Sector – Restrictions to Investment

103. The investment in Jordanian capital market and directly in the financial sector is governed by a liberal regime. Foreign ownership accounts for over 40% of the banking sector and there are no publicly owned companies, which is quite unusual by regional standards. Jordan reports no restrictions on capital

³³ Amman Stock Exchange, Monthly Statistical Bulletin, February 2006.

³⁴ Economist Intelligence Unit, Jordan Country Report, March 2006.

³⁵ Economist Intelligence Unit, Jordan Country Report, March 2006.

³⁶ US Department of Commerce, www.commerce.gov.

and money market instruments.³⁷ Foreign investors are not constrained from participating in the Jordanian capital market, and in fact non-Jordanian ownership of market capital is one of the highest in the world at 45%.³⁸ According to a press release in by the Amman stock exchange in April 2006, non-Jordanian ownership in companies listed at the ASE by end of April 2006 represented 44.3% of total market value, 35.1% for Arab investors and 9.2% for non-Arab investors. At the sector level, the non-Jordanian ownership in the banking sector was 54.5%, in the insurance sector was 23.0%, in the services sector was 20.9%, and in the industrial sector was over 40%.³⁹

104. However, pursuant to Article 24 of the Investment Promotion Law No.16, non-Jordanian investors' capital investments should not exceed 50% of paid-up capital in certain sectors.⁴⁰ Further non-resident investments are limited to a maximum of 49% ownership or 50% subscription in shares in the following major sectors: commerce and trade services, construction, contracting, and transportation. While foreign ownership in the banking sector is not explicitly restricted, provision of certain services such as brokerage services (excluding financial brokerage and intermediaries conducted by banks, financial companies and financial services companies) and (money exchange services excluding those provided through banks or financial companies).

105. These ceilings and restrictions are being reformed and liberalised. The following highlights a number of key financial sector reform measures which took place in Jordan within the last 10 years⁴¹:

- Fully liberalizing interest rates structure;
- Shifting towards indirect monetary policy;
- Implementing full convertibility for both current and capital transactions;
- Pegging the Jordanian dinar to the US dollar;
- Strengthening banks' supervision and regulation;
- Enacting modern banking law;
- Increasing the minimum banks' paid – up capital;
- Increasing the capital adequacy ratio;
- Activating competition among banks;
- Creating Jordan deposit insurance corporation;

³⁷ International Monetary Fund, Exchange Arrangements and Exchange Restrictions, 2005.

³⁸ Economist Intelligence Unit, Jordan Country Report, March 2006.

³⁹ Amman Stock Exchange (www.ase.com/jo)

⁴⁰ Amman Stock Exchange (www.ase.com/jo)

⁴¹ Presentation Dr. Moh'd Abu-Hammour, Former Minister of Finance of Jordan, IIF's Eighth Annual Meeting of Middle Eastern And North African Bank Chief Executives, Abu Dhabi, UAE, February 19-20, 2005.

- Separating regulatory functions from operational functions in Amman financial market;
- Modernising Amman financial market and creating central settlements and securities depository;
- Deepening the domestic financial market through diversification of financial instruments and strengthening institutions and regulations

Venture Capital Industry

106. While general trends can be debated, the exact figures of private equity or venture capital investment by local, regional or global equity firms in Jordan are not generally available. Given the current level of private equity and venture capital activity, it would be fair to describe the state of development of these industries in Jordan as nascent, although recent progress indicates the possibility for their rapid development. While the venture capital sub-sector is not particularly robust relative to the size of the Jordanian economy⁴², the same could be said of many other countries in the region.

107. Development of a robust venture capital industry is consequential for sustainability of Jordanian entrepreneurship for a number of reasons. A key factor which makes venture capital finance extremely relevant to the Jordanian case is that, much like its neighbouring MENA countries, the Jordanian economy is almost entirely comprised of family owned SMEs (estimated at 99%).⁴³ An additional factor which calls for the development of private equity/venture capital availability is difficulty facing private enterprises in accessing cheap credit.⁴⁴ Finally, the existing high rate of entrepreneurship (estimated at 18%) cannot be financed exclusively through means such as bank credit or informal loans from family or friends.

108. A number of business incubators, public sector agencies and finance organisations are involved in and relevant to the development of a robust private equity and venture capital industry in Jordan. In most cases, these organisations or Ministries are not directly involved in venture capital issues *per se*, but their activities indirectly impact the broader framework for innovation and finance in Jordan, and some of them could assume a more expansive role in supporting the venture capital industry. For a more complete description of the state of development of the Jordanian venture capital industry and recommendations on its development, please refer to the background paper titled “Venture Capital Funds – Creating an Enabling Environment” prepared for the Jordanian National Investment Reform Agenda workshop.

⁴² The fact that formal VC funding in Jordan is slowly being recognised and only very slightly applied was a conclusion of a recent report by the Young Entrepreneurs Association.

⁴³ AMIR Programme.

⁴⁴ The Jordan Central Bank rediscount rate for 2005 stood at 6.5%, and is predicted to further rise to 7% by 2007 (EIU, May 2006) in line with global tightening of money supply.

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ANNEX 1: BILATERAL INVESTMENT AND DOUBLE TAXATION TREATIES OF THE KINGDOM OF JORDAN

Table 5. Jordan's Bilateral Investment Treaties

Jordan's Bilateral Investment Treaties	Signature			Entry into Force		
	Month	Day	Year	Month	Day	Year
Algeria	Aug.	1	1996			
Austria	Jan.	23	2001			
Bahrain	Feb.	8	2000			
China	Nov.	5	2001			
Croatia	Oct.	10	1999			
Czech Republic	Sep.	20	1997			
Egypt	May	8	1996			
France	Feb.	23	1978	Oct.	18	1979
Germany	Jul.	15	1974	Oct.	10	1977
Indonesia	Nov.	12	1996			
Italy	Jul.	21	1996			
Korea	Jul.	24	2004	Dec.	25	2004
Kuwait	May	21	2001			
Lebanon	Oct.	31	2002			
Malaysia	Oct.	2	1994	Mar.	3	1995
Morocco	Jun.	16	1998			
Netherlands	Nov.	17	1997	Aug.	1	1998
Poland	Oct.	4	1997			
Romania	Jul.	2	1992			
Singapore	May	16	2004			
Spain	Oct.	20	1999			
Sudan	Mar.	9	2000	Jul.	23	2000
Switzerland	Nov.	11	1976	Mar.	2	1977
Syria	Oct.	8	2001			
Thailand	Dec.	15	2005			
Tunisia	Apr.	27	1995			
Turkey	Aug.	2	1993			
United Kingdom	Oct.	10	1979	Apr.	24	1980
- extension to Hong Kong	Oct.	10	1979	Apr.	10	1986
- extension to Bakiwicks of Jersey and Guersnay and Isle of Man	Oct.	10	1979	Jun.	14	1981
United States	Jul.	2	1997	Jun.	12	2003

Yemen	Jun.	18	1997	Jan.	28	1998
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Source: UNCTAD, Investments Instruments Online (12 May 2006)

Table 6. Jordan's Double Taxation Treaties

Jordan's Double Taxation Treaties	Signature
Algeria	
Bahrain	
Canada	1999
Egypt	
France	
India	1999
Indonesia	
Kuwait	
Malaysia	
Poland	
Romania	
Sudan	
Syria	2001
Tunis	
Turkey	
UK	
Yemen	

Source: Jordan Investment Board, 2006.

JORDAN NATIONAL INVESTMENT REFORM AGENDA WORKSHOP

D. THE IMPLEMENTATION OF A CORPORATE GOVERNANCE CODE: THE IMPORTANCE OF AN ENABLING ENVIRONMENT

SUMMARY REPORT AND RECOMMENDATIONS

This document was originally developed in preparation for the National Investment Reform Agenda Workshop for Jordan, organised by the MENA-OECD Investment Programme on June 19th, 2006. This paper was meant to provide the background for an item relating to the development of an enabling environment for the implementation of a corporate governance code in Jordan. It summarises discussions held during the workshop, and recommendations for development of an enabling environment in Jordan for the development of a corporate governance code.

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I. Background

1. Most countries that have an interest in enhancing the function of their capital markets now have a corporate governance code or are in the process of developing one. Some countries have multiple codes that focus on some specific aspect of corporate governance such as executive or director remuneration, or the internal control of the enterprise. Still other countries have a second generation or even a third generation code, which are the products of changing circumstances, emerging knowledge on corporate governance, and successive revisions.

2. As a consequence, there is no dearth of model codes for countries that are in the process of developing codes to consult. In fact, the opposite can be said to be true. There are numerous excellent models to consult that reflect the local circumstances of a variety of countries, including countries with emerging capital markets, countries with long-established ones, transition economies, etc. Not only do many excellent models exist, but there is also copious comparative information on codes⁴⁵ and detailed guidance on how to draft and manage the drafting process.⁴⁶

3. There is, on the other hand, no clear guidance on (or for that matter, no clear understanding of) the so-called enabling environment required for a newly drafted governance code to affect the quality of corporate governance and, in turn, to enhance the quality of the capital market. In practice, one can readily observe codes that fail to achieve their objective of enhancing corporate governance. Some codes fail despite the fact that they are well-considered, well-written, documents. Their failure is often quite independent of the actual quality of the code.

4. A number of enabling conditions fundamentally determine the ability of codes to achieve their desired outcome. The creators of codes should be aware of these conditions, so that they are cognisant of those that are key to the success or failure of their project. Creators of codes should also be aware of the extent to which they can influence these factors, and be ready to take action in those areas where changes are fundamental to the success of their effort.

5. There are many factors that could conceivably contribute to the success or failure of a codification effort. Perhaps the easiest to control is the drafting process of the code itself. Most of the existing guidance on codes focuses on their content: what elements should or should not be included. The tendency is to view the final document as the ultimate output.

6. Far less attention is paid to process when in fact; there is good cause to believe that the final output of a codification effort is not just a well-crafted document, but also the forging of a consensus among different interested parties, and generating commitment to change. Furthermore, the work of the creators tends to be viewed as completed once the drafting process has been finished. Little attention tends to get paid to what organisations will act as advocates for the code, and who will have ownership once the document is completed.

7. Ultimately, these aspects may have a much larger influence on the final outcome of the project than the written words on the page. As a consequence, the codification process can be seen equally as a project to create the necessary human and institutional capital to carry good governance forward after the writing phase has been completed. Code writers are thus encouraged to take into account and actively manage their project in such a fashion as to generate the support and commitment to their code so that governance will improve in practice.

⁴⁵ See comparative work by Weil, Gotschal & Manges.

⁴⁶ See International Forum for Corporate Governance (World Bank) toolkits.

The code drafting process

8. Some of the factors which can be controlled by drafting committees are:

- The identification and inclusion of all key stakeholders that are key to the success of the code or who could block its progress;
- Addressing all key issues with all key stakeholders openly and fairly, and with the final interest of improved governance in mind;
- Including those stakeholders who are key to carrying the code forward after its completion;
- Consultation with key parties that are important to the success of the project and consultation with the public.

These factors deal with the process of codification rather than the content of the code. They are relatively easy to control by the drafting committee, and should be actively managed in order to enhance the chances for success.

Capital markets factors

9. Other enabling factors are external to the drafting committee and are considerably more difficult to control. Some of these factors are related to the structure of the capital market itself. They include:

- Ownership structures within the country;
- The level of free float or shares available for trading;
- The presence of foreign investors on the market;
- The presence of minority shareholders (both active and passive);
- The level of development and acceptance of equity markets as funding sources;
- Demand for capital from companies;
- A prior privatisation program that has increased the number of shares available for trading.

10. These factors tend to be largely out of the control of a drafting group, and changes in these factors will only occur over extended periods of time. There is, undeniably, a connection between these market factors and governance codes. Codes tend to function best in markets that already have a number of these supporting factors. On the other hand, codification efforts are generally designed precisely to bring about more mature, larger and more efficient equity markets. Ultimately, however, the marginal benefits that will accrue to a relatively underdeveloped equity market from a successful reform effort are likely to exceed those that can be expected in the context of market where other factors are already in place.

Institutions

11. Another set of enabling factors are the institutions that encourage good governance. Not all countries will have all of these institutions, nor are they, in all likelihood needed:

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- A securities exchange commission with sufficient authority, human and financial resources;
- A stock exchange with listing requirements and delisting rules;
- An association for corporate governance that can raise awareness and educate;
- An association of directors to establish norms and educate;
- Independent accounting standard setters;
- A government audit oversight body;
- A professional body that oversees audit professionals;
- Corporate governance ratings agencies;
- An index that tracks corporate governance;
- A central bank that requires sound governance as part of its prudential supervision of banks.

12. Not all of these institutions may be needed for good governance to flourish. There may, however, be a minimum. A securities exchange commission and a stock exchange with adequate powers appear to be a *sine qua non* for effective governance. These parties should be either involved or consulted during the code drafting process, and should, where needed, adapt their own rules and regulations to support the thrust of the governance reform effort.

13. Even amongst countries that have all of these institutions, a lack of coordination or, worse, institutional infighting or competition, can prevent the effective application of codes. A clear and rational division of responsibilities among institutions is important. For this reason, high level direction and political support can be of critical importance.

14. Reform can be expedited by a friendly political environment. In addition, good public sector governance and good corporate governance are often intricately interrelated. The following political considerations are important:

- A level of social consensus that allows for agreement on basic issues such as the purpose of the corporation in society, the role of stakeholders in the governance of the enterprise, and other basic social values;
- A level of political consensus and support sufficient to encourage improved governance;
- A level of public sector governance that is sufficiently high to encourage accountable and ethical behaviour at the corporate level.

15. History demonstrates that political support tends to be galvanized in times of crisis. The original OECD Principles of Corporate Governance were a response to the Asian crisis of 1997 which shook global financial markets. The crisis and the resulting collaboration among international organizations facilitated the drafting of the first internationally recognised code. The original Cadbury Code in the UK, the Sarbanes Oxley Act in the US, and many others were passed in response to corporate scandals and a

loss of faith in the financial markets. Having a clearly defined need and a problem to address is of great importance to having the necessary political will to push through what can, at times, be difficult reforms.

Legal structures

16. Legal structures can be the most difficult and cumbersome enabling factors to change. A corporate governance code may in fact serve as a means of speeding governance reforms without having to go through the extensive process required to draft or amend laws. Law may, for example, permit share structures that provide disproportionate control to certain shareholders, while a governance code may identify best practice as one-share-one-vote. The result may be that while existing practices may be legal, companies are made aware that the markets prefer one-share-one vote, and that companies are measured according to the higher standard. Nonetheless, key elements of the legal framework are still important to allow a code of governance to flourish. These elements comprise of:

- A company law that is conducive to good governance;
- The possibility of effective recourse;
- Enforcement and the rule of law;
- An effective court system.

17. The relation between hard law and codes (or soft law) will differ depending upon the country. Typically, the precepts of law are adjudicated in the courts, while the principles of codes are adjudicated in the markets. However, different countries have different legal and business cultures that might make one more effective than the other. Some countries may find that additional legal support is required to encourage companies to comply with certain aspects of codes.⁴⁷ In general, it is important for hard and soft law to be complementary in nature.

Communications structures

18. Transparency and communication are fundamental to good governance, as they are to the code drafting process itself. Markets function based on the information that companies produce. Without timely and cost effective information, governance monitoring becomes difficult. Some of the factors that enable better transparency and monitoring are:

- Filing and retrieval systems that allow cheap real-time access to information;
- A business press that has an interest in governance;
- Information intermediaries such as governance ratings agencies or analysts;
- An interested and educated public.

⁴⁷ See the example of Germany and disclosure of executive remuneration.

19. Information and disclosure are considered the heart of the effective governance. However, it is worth bearing in mind that even in the presence of strong disclosure, massive governance abuses can occur in the absence of a legal framework that allows stakeholders recourse.⁴⁸

20. The above structure is just one way of organising enabling factors; it is provided merely as an illustration to elicit discussion. There will be other ways and probably better ways of viewing these factors. Furthermore, the list is already long and could easily be expanded. The key point is that not all of these factors need to be actively managed, but that corporate governance cannot be condensed merely to the result of a code drafting process. Rather, good governance is the result of the interaction of a large number of factors, some of which can be addressed in the short-term, others over a longer period of time, and others which are difficult to control. Irrespective of the presence or absence of these enabling factors, a governance code is important, since the code itself becomes a part of the larger institutional framework of the country that determines the function of its capital markets.

II. The Corporate Governance Landscape in Jordan

21. There is at present no corporate governance code for exchange traded companies in Jordan, though there have been preliminary discussions on drafting of a code. A code of corporate governance, based upon the OECD principles of Corporate Governance, exists for Jordanian banks and is enforced by the Central bank.

22. There appears to be a consensus with respect to the benefits of good governance and also on the need to improve the governance landscape in Jordan. A company law reform is currently underway, and there is potential for Jordan to be on the forefront of corporate governance in the region in the future. The existing company law already contains some of the signature elements of good governance, nevertheless, enforcement remains a major issue.

23. A variety of sectors could be considered for a governance code including small and medium size enterprises (SMEs) and State Owned Enterprises (SOEs). While SOEs, SMEs and privately held companies all have governance issues, the classic application of governance codes is for exchange-traded companies.

24. A key consideration in drafting a code of governance is the relationship between company law, securities law, and voluntary codes of best practice. This relationship and the strengths and weaknesses of legislation versus codification were described in one of the presentations delivered during the Jordan NIRA workshop. Company law generally represents a minimum standard and is inevitably mandatory. On the other hand, governance codes generally represent “better” if not “best” practice and are generally voluntary. Drafting legislation can be a time-consuming process that results in a static document, while codes can be easier to draft and apply, and are generally more flexible in their application.

25. Jordan, like most other countries, has a relatively time-consuming legislative process which has resulted, in some cases, in conflicting and at time difficult to interpret law. The development of a governance code could be a useful complement to legislation, and could be used to avoid some of the drawbacks of the legislative processes, while at the same time providing flexibility and responsiveness. Another benefit of drafting a corporate governance code in Jordan is that this process could involve the private sector.

⁴⁸ See Bernard Black and the case of disclosure and governance in the Russian Federation.

26. The boundaries and interaction between company law, securities law, codes of ethics and governance codes need to be well understood and clear in Jordan. Each has a fundamentally important role to play in the function of securities markets. The improvement of corporate governance in Jordan will depend on satisfactory and complementary law in each of these areas and a corresponding code of corporate governance.

27. Not all countries have legal traditions or experience with codes or “soft law” as tools for influencing corporate behavior. Voluntary codes have not been a significant part of the regulatory tradition in Jordan. The introduction, implementation and enforcement of a governance code in countries that have a law-based regulatory tradition require care, with special attention paid to how codes can be used to actually affect company practices.

28. The company law in Jordan is currently undergoing review. The existing company law already contains some of the signature elements of good governance. Nevertheless, enforcement remains a major issue. There is a need for greater competency and a better understanding of governance issues within the justice system in order to ensure better enforcement. Additional training of lawyers on governance and company law matters may be necessary.

29. The concern regarding the ability to enforce minimum legal requirements in Jordan extends to the enforcement of voluntary codes. The typical method of enforcing corporate governance codes—usually through a “comply or explain” disclosure policy—did not provide satisfactory results in some countries where investors did not have access to effective legal recourse. Simple disclosure may not be a solution in the absence of mechanisms that can permit shareholders to assert their rights.

30. The importance of leadership in any codification effort warrants considerable further reflection. The Office of the General Controller of Companies (currently responsible for the review of company law in Jordan in collaboration with the Securities and Exchange Commission) has been put forward as a potential champion for a code during the NIRA workshop. Experience has shown that successful codes have been drafted under the aegis of private sector bodies (such as an institute of directors), self-regulatory bodies (such as a stock exchange) or government bodies. Any number of alternatives could be successful, though the inclusion of all relevant stakeholders is likely to be an important contributor to success.

31. Careful consideration must be given to how to make the code a living document after its completion. A code drafting project should not only set as its objective the drafting of a text. It must also give due consideration to how to encourage acceptance and use of the code once the drafting work has been completed.

32. This second aspect of the codification process can be more important to improving governance than the final code itself. A first step in creating a viable document is the consideration of all relevant stakeholders in the drafting process and a fair and transparent treatment of their positions. Including the private sector in a meaningful way will be critical to the success of any codification effort.

33. It is recognised in Jordan that creating change in corporate governance is equivalent to creating cultural change. Cultural change is by its nature slow because it implies changing values and long-ingrained behaviors. Thus, expectations for a new code should thus be set realistically.

34. Training and education are required for both regulators and companies in order to change the governance culture. Training and education are particularly relevant given the lack of awareness by the general population of the importance and relevance of corporate governance. Reflecting this, discussions during the workshop indicated that spreading general awareness on the importance of sound governance was also considered an important contributor to cultural change.

35. Governance codes for publicly traded companies focus on the protection of minority shareholders and have the goal of enhancing the function of equities markets. It is this type of governance that will also likely have the greatest impact on the perception of the quality of the Jordanian capital market as beneficiaries of international portfolio investment or of Jordan as a location for a financial services industry.

III. Challenges and Recommendations

36. The recommendations that resulted from the NIRA workshop discussions for creating an enabling environment for the development of an effective corporate governance code for Jordan included:

- The identification of a key institution to carry out coordination among the relevant stakeholders who express their interest in a codification project;
- The necessity of all official institutions concerned with the topic of corporate governance to work together in furthering the discussions especially during the drafting process. These institutions should include the Jordan Stock Exchange, the Central Bank, and the Ministry of Industry and Trade.
- Definition of an awareness raising campaign, including elements of disclosure, training on monitoring, review of content, compliance. Special attention should be paid to disclosure of beneficial ownership and related party transactions.
- Capacity building and training of lawyers on governance and company law matters.

JORDAN NATIONAL INVESTMENT REFORM AGENDA WORKSHOP

E. CREATING AN ENABLING ENVIRONMENT FOR VENTURE CAPITAL FUNDS

SUMMARY REPORT AND RECOMMENDATIONS

This document was originally developed in preparation for the National Investment Reform Agenda Workshop for Jordan, organised by the MENA-OECD Investment Programme on June 19th, 2006. This paper was meant to provide the background for an item relating to the development of an enabling environment for operation of venture capital funds in Jordan. It outlines the performance of the Jordanian venture capital industry in the global and regional context, summarises key players and recent initiatives in establishing a robust private equity/venture capital industry. This paper was further updated based on discussions held during the workshop, and recommendations for development of the Jordanian venture capital industry have been developed by the MENA-OECD Investment Programme. The paper has also benefited from comments made by venture capitalists and private equity players in the course of interviews following the workshop.

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I. The Private Equity Industry in the MENA region

1. In the Middle East and North Africa (MENA) region, the development of the venture capital industry has accelerated pace in the last 2-3 years.⁴⁹ According to Zawya's PE Monitor, US \$5.8 billion of private equity funds were raised in the MENA region between 1994 and 2005, of which 41% were raised in 2005 alone. The private equity industry in the region closed in 2005 with a record number of funds launched - more than 16 funds with \$2.4 billion of paid up capital started operation.

2. Prior to the contraction of the local capital markets, 2006 was widely expected to be at least as strong as 2005 in terms of performance of the private equity industry. Industry's size across the MENA region was expected to exceed \$8 billion by the end of the year, however since recent corrections in many of the region's stock markets, these expectations may not realise.⁵⁰ In the first half of 2006, 31 funds have already established and are seeking \$18.2 billion – a significant improvement comparing to \$5.8 billion raised in MENA countries between 1991 and 2005.

3. What is particularly interesting about the activity in 2006 is the growing number of venture capital (VC) funds. The 14 largest VC funds aim to raise around \$1 billion in the MENA region this year, significantly more than what VC funds have raised over the past 10 years in the region. This growth is expected to continue in the medium and long terms because the industry is still small compared to the size of the overall economy. The size of funds is also growing – last year the \$500 million buy out fund by Abraaj Capital was considered large, yet its latest offering is over \$ 2 billion.

4. While the industry has grown and is expected to further increase, it is to be noted that this does not necessarily imply rapid increase in the number of industry participants. In 2005, most funds have been promoted by established private equity houses such as Abraaj Capital, Gulf One Investment Bank, and Ithmar Capital. These established players are mostly Gulf based private equity firms, with an interest in investing in growing MENA economies outside the Gulf region, including Jordan, Morocco and Egypt.

II. Current Venture Capital Landscape in Jordan

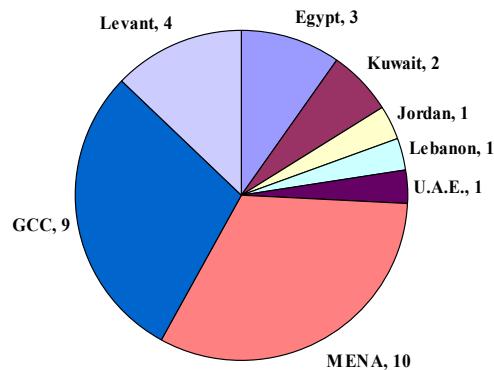
5. The exact figures of private equity investment by regional or global equity firms in Jordan are not available, but are low relative to both economic size and current potential. According to interviews with industry participants, most VC funds operating in Jordan are regional and are focused on financing opportunities in the growth or later stages. Accordingly, seed and early stage financing in Jordan is relatively difficult to obtain, particularly if the amount required is substantial and the entrepreneur cannot offer collateral. This is despite the fact that many private equity/venture capital funds invest in Jordan, in particular in IT, healthcare and education sectors, and perceive it as a destination with an active entrepreneurial culture.

6. The following graph highlights the designation of private equity funding in the MENA region, highlighting the opportunity for Jordan to improve its current position.

⁴⁹ Refer to “Venture Capital Development in MENA Countries”, MENA-OECD Investment Programme Policy Brief, March 2006.

⁵⁰ While the performance of stock markets in the region are not relevant to establishment of the VC industry per se, insofar as stock markets represent an exit option for VC funds, the recent correction of regional bourses may negatively affect the local VC industry.

Figure 1: Geographic Focus of Private Equity Funds in the MENA region (number of funds)



Source: EFG Hermes, 2005.

7. While general trends can be ascertained or debated, figures on private equity investment in Jordan by local or foreign-based firms are generally not available. The development of a more robust means of capturing the entrepreneurial activity in general, and that which is specifically funded by private equity/venture capital, would be essential to understanding specific gaps. Furthermore, figures on funds invested, as opposed to funds raised, would be necessary to grasping the state of current affairs in this area.

8. The following provides a summary, although not exhaustive, of activity by private equity and venture capital firms that had or have a presence in Jordan. For the most part, these firms do not limit their operations to Jordan, and in fact most have presence in the Gulf region and/or fundraise in the Gulf.⁵¹

- **Riyada Ventures** is a regional organisation providing private equity management, venture creation, and strategy advisory services focused on knowledge-based industries in the Arab world. In the past two years, the company has completed the establishment of 3 new companies in the Internet space as an engagement with National Technology Group, a leading regional technology firm. It has recently established one of the largest first-time funds in the region, is well on its way to raising its target of \$100 million at its first closing.⁵² The fund is targeting Middle Eastern or North African late-stage or growth companies with global potential.
- **Foursan Technology Partners (4san)** is a Jordanian venture capital firm focused on non-publicly traded start-ups and emerging IT ventures in the Middle East and North Africa region. It has established a \$50 million fund, co-managed by Deutsche Bank, Foursan Investment Group and Atlas Investment Group.
- **Accelerator Technology Holdings** is a private equity firm which operates using an innovative model of attracting US, European, and Arab experienced IT investors to invest in enterprises in the MENA region at all stages of development. The company invests from \$.5-5 million in potential entrepreneurial ventures, and up to \$10 million in joint ventures. The uniqueness of the

⁵¹ As revealed in interviews with industry participants, registration of PE funds in Bahrain or other Gulf countries is common, even if their primarily operations are in fact in Jordan. This is done in order to obtain more lucrative business incentives.

⁵² <http://www.redherring.com/Article.aspx?a=15733&hed=A+Mideast+Silicon+Valley>

MENA-OECD Investment Programme

Accelerator model is that it focuses on longer term investments (5-7 years) in the IT sector, as opposed to investing in more traditionally attractive and developed sectors such as real estate.

- **Catalyst** is a specialised private equity fund focusing on the Arab region. Catalyst is a focused private equity that creates, invests in, and grows successful industrial product and technology companies, with a specialisation in the energy and water sectors. Catalyst is based in the Middle East region including direct and partner offices in Jordan, Saudi Arabia and the United Arab Emirates, along with a strong international network including relationships with institutions regionally and internationally.

9. In addition to those listed above, there exist also a number of private equity funds, but the majority of them do not invest in small and medium size enterprises at developing stages, instead choosing to target more traditional industries and enterprises at later growth stages (pre-IPO). For instance, Atlas Investments, in cooperation with the Arab Bank has launched an Arab Bank MENA Fund, which invests in MENA stockmarkets, including in the Amman stock exchange. Likewise, the Jordan-Dubai fund, a \$272 million investment fund to target opportunities in Jordan, launched in 2005 by Dubai International Capital, has targeted large investment opportunities in traditional sectors.

10. A majority of these private equity funds are targeting lucrative sectors such as real estate where investment horizons tend to be shorter as compared with seed investment in IT. Furthermore, the emphasis in recent months seems to be on corporate restructuring deals, historically more profitable as opposed to investing in SMEs, which tends to entail a higher risk. The majority of these private equity funds have been relatively successful if their measure of success is to be judged by the amount of equity raised, but less successful if one were to judge by investments they have made.

11. Other VC and PE firms have begun operating in Jordan, however appear to have recently ceased their operations. Their lack of success is attributed by some Jordanian analysts to the burst of the technology boom in the United States and the failed hopes for greater stability associated with the Camp David process, although specific reasons of course, do vary on a case-by-case basis. Some examples are as follows:

- **Crescent Venture** was expected to partner with Export and Finance Bank to establish an Amman-based fund worth \$30 million to invest in 15 Internet and IT firms in the Middle East region. It was expected to provide incubation services to these firms in addition to cash investments, however according to local sources, the fund did not materialise.
- **EFG-Hermes** was likewise expected to establish a \$15 million Jordan IT Venture Capital Fund to encourage investment in promising small Information Technology companies. \$1 million in funds was come from Cisco Systems, \$1 million from Norway, \$4 million from the European Investment Bank, with the remainder coming from Arab investors. It is understood that this fund has also ceased operations, after making approximately \$2 million of investments.
- **The Jordan Technology Group** has signed an agreement with the European Investment Bank and JordInvest to establish share subscription agreements. It was expected to invest \$2.9 million in a VC company targeting IT start-ups, but has also recently ceased operations.

12. Given the current level of private equity and venture capital activity, it would be fair to describe the state of development of these industries in Jordan as nascent, although recent progress indicates the possibility for their development. While the venture capital sub-sector is not particularly robust relative to

the size of the Jordanian economy⁵³, the same could be said of many other countries in the region. The development of the industry is perceived to be hampered by potential investors' unfavourable comparisons of the return on private equity vis-à-vis other financial instruments. Given the strong performance of MENA stock markets, particularly until March 2006, this attitude by potential investors is not surprising.

13. The level of development of the venture capital industry in Jordan underscores the importance of establishing an institutional framework for private equity activity, including a national private equity and/or venture capital association similar to the National Venture Capital Association in the United States or the pan-European EVCA, as well as the importance for Jordanian firms to be more actively represented in global venture capital organisations. An organisation where the interests of Jordanian equity players could be appropriately represented is the Emerging Markets Private Equity Association (www.empea.net).⁵⁴

14. Moreover, the establishment of a private equity association either on the national or on the sub-regional level similar to the recently established Gulf Venture Capital Association (<http://www.gulfvca.org>) would likely have a positive impact on the development of VC in Jordan. Such an organisation could have a role of disseminating knowledge to its members, gathering statistics on member activity, and acting as a repository of company contacts. Although there is currently no local private equity or venture capital organisation, an Arab Venture Capital and Private Equity Association has been recently created and is being developed as a regional organisation to organise and promote the interests of the industry in MENA countries.

15. Measures to encourage participation of local financiers in this or similar types of forums where participants are given an opportunity to exchange knowledge, could be beneficial. If local private equity players were to participate in such forums, their visibility would increase as would that of the industry itself. It is understood that the Emerging Markets Private Equity Association is in the process of forming a MENA Chapter, although the process is currently in its early stages.

16. While opportunities are available, lack of experience in legal issues relating to formalising private equity deals prolongs the process of negotiation and effectively increases the costs on PE players. Local PE participants perceive that lack of services and general infrastructure to support the venture capital/private equity industry in terms of quality managers to manage such firms, local legal expertise in formalising deals, and misunderstanding by entrepreneurs of the value of private equity, impedes the development of this industry. Based on discussions held with private equity players, the industry lacks sophistication and capacity, and as a result, necessary processes such as due diligence are difficult to manage. According to some analyses, the industry needs to concentrate on building its own capacity as opposed to rushing to conclude deals.

17. Other industry participants interviewed have commented that the lack of legal and other infrastructure, although limited, is not a decisive factor, given that relevant expertise can be obtained from the Gulf or international specialised legal firms. For them, time consuming processes which they found not entirely transparent in terms of common business transactions, such as filing tax returns, were more

⁵³ The fact that formal VC funding in Jordan is slowly being recognised and only very slightly applied was a conclusion of a recent report by the Young Entrepreneurs Association.

⁵⁴ EMPEA is a broad-based membership organisation founded in 2004 that serves private equity and venture capital firms, fund investors, and service providers with an interest in private equity in the emerging markets of Africa, Asia, Eastern Europe, Latin America and the Middle East. EMPEA programmes bring together industry players in a network to address common challenges and highlight opportunities in coordination with national and regional venture capital associations.

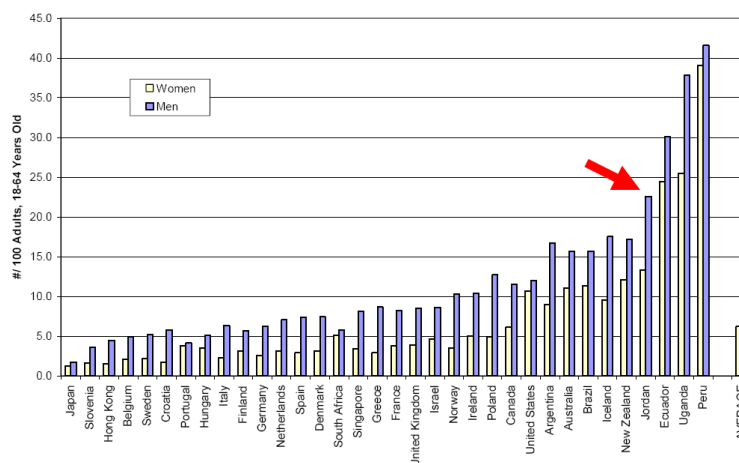
cumbersome. In this context, it must be noted that experiences of private equity managers varied as the most serious obstacles facing their industry. Most, however, perceived that improvements in the regulatory climate have been made and that the country is moving in the right direction.

III. Relevance of Venture Capital Financing to Jordan

18. A key factor which makes venture capital finance extremely relevant to the Jordanian case is that, much like its neighbouring MENA countries, the Jordanian economy is almost entirely comprised of SMEs (estimated at 99%)⁵⁵. These SMEs are in turn largely financed through informal means, and this sort of financing through internal capital is insufficient to meet the present needs of many companies.⁵⁶ According to estimates of the Young Entrepreneurs Association of Jordan, formal business angels support makes up for only 19% of entrepreneurship funding means in Jordan.

19. An additional factor which creates further relevance for the development of private equity/venture capital availability is the difficulty facing private enterprises in accessing cheap credit.⁵⁷ For entrepreneurs who do not have the appropriate collateral, it is particularly difficult to obtain financing. The World's Bank Doing Business Report ranks Jordan as 74th, and in particular, the country does not perform particularly strong on the issue of access to credit. Specifically, on the depth of credit information, Jordan received 2 out of 6 possible points, private credit bureau coverage of adults does not exist, and public registry covers .6% of the population.⁵⁸ Yet another aspect which makes VC extremely relevant to the Jordanian case is the existing high rate of entrepreneurship. As shown in the figure below, the total entrepreneurial activity in Jordan is rather high (18%).

Figure 2: Total Entrepreneurial Activity by Gender and Country



Source: Young Entrepreneurship Association, 2005.

20. Furthermore, according to recent surveys the percentage of population in Jordan who agrees that entrepreneurship is a desirable career path is also remarkably high (72%). However, while the rate of entrepreneurial activity and its social perception appear to be rather positive, the main sectors for

⁵⁵ AMIR Programme, Access to Finance in Jordan.

⁵⁶ Ibid.

⁵⁷ The Jordan Central Bank rediscount rate for 2005 stood at 6.5%, and is predicted to further rise to 7% by 2007 (EIU, May 2006) in line with global tightening of money supply.

⁵⁸ World Bank, Doing Business Report, 2005.

entrepreneurship in Jordan are not the high technology sectors that venture capital firms target, but primarily consumer services (67%).

IV. The Imperative to Foster High Technology Industry

21. Measures to develop the private equity/venture capital industry should not be considered in isolation from initiatives to foster the development of a high technology industry - an industry typically targeted by venture capital firms. Development of high technology industry of interest to venture capitalists is a necessary precondition to the establishment of a robust private equity sector in Jordan. An important existing initiative to mention in this context is the Jordanian REACH programme (1999-2004), which focused specifically on raising the profile of the local ICT industry and its development (<http://www.reach.jo>). The REACH Initiative was launched to bolster the country's IT sector following the successful experiences the Irish and Singapore models and encompassed the following elements: regulatory framework, enabling environment, advancement programme, capital and finance, and finally human resource development.

22. This initiative has made some specific recommendations on the development of finance for entrepreneurship, including developing/attracting alternative sources of start up capital, making funding available on preferential terms, and facilitating ICT IPOs on Amman Stock Exchange. It has also suggested to publish a guide of financial resources available in Jordan and another guide on the financial needs of the Jordanian ICT companies.⁵⁹ Specifically on the issue of venture capital finance, this initiative has recommended in its last 2004 report that government and donor resources are tapped to create an ICT-SME risk capital fund which would invest in firms in expansion phase amounts ranging from 100,000 - 500,000 JD. The fund was supposed to be structured such that the government would subsidise a higher rate of return in order to induce investors to invest in companies whose risk profile would have made them insufficiently attractive investments on a risk adjusted basis.

23. The REACH initiative was specifically focused on fostering a robust IT sector. Some private equity managers interviewed for this paper have commented that the narrow conception of 'technology' as 'information technology' has been detrimental in the case of Jordan. Given that Jordan does not historically have a strong competitive advantage in strictly speaking IT sectors, such as proprietary software for the banking industry for instance, it would be better served if efforts were concentrated on other technology sectors where Jordan has a competitive advantage such as physical or chemical engineering, and in sectors where demand exists in the region (i.e. water desalination, oil and gas development projects, etc.)

24. In general, it appears that there is substantial infrastructural support for entrepreneurs wishing to establish a business. Entrepreneurs are supported by a number of business incubators operating throughout Jordan⁶⁰, including The Jordan Technology Group (JTG)⁶¹, the National Consortium for Technology and Incubation of Business, the ICT Business Incubator, and the Jordan Forum for Business and Professional Women. What may be missing in this infrastructure is the linkage between venture capital and business incubators, the importance of which was successfully highlighted in a 2005 paper "Business Incubation

⁵⁹ At this point, these guides does not seem to publicly available which presents a problem for entrepreneurs wishing to learn about venture capital resources which might be available to them.

⁶⁰ For a complete list, refer to <http://www.escwa.org.lb/ntpi/jordan.asp>.

⁶¹ The JTG is one of the earliest business incubators in Jordan and has been active since 1988.

and Venture Capital” co-authored by the International Institution for Knowledge Promotion and Enterprise Development (IKED).

25. Another element which could be detrimental to the development of a successful venture capital industry in Jordan is the relative absence of ‘entrepreneurship cluster zones.’⁶² Such zones could be fostered through initiatives similar to the recently opened Queen Rania Center for Entrepreneurship which is linked with a local university. A relevant recommendation in this context would to assist entrepreneurs in fostering knowledge clusters through provision of infrastructure and incentives for establishment.

26. This model has proven to be successful in the United Arab Emirates, Bahrain and Oman⁶³, where tax and other incentives for establishment were provided to firms which have chosen to establish themselves within local techno parks. These zones have often been established as free trade zones with significant tax incentives. The establishment of such zones in the proximity of research facilities has in many cases resulted in concentration of innovative capacities and a high rate of establishment of new enterprises, which is necessary for the attraction of venture capital.

27. Implementation of these initiatives such as entrepreneurship cluster zones may help to improve the size and the quality of the deal flow. In interviews with industry participants, many noted that insufficient and weak deal flow is a key issue affecting the interest of potential PE investors in Jordan. Some commented that due to misunderstanding of the legal framework and relevant regulation, negotiation of a deal is cumbersome and this imposes significant costs of private equity firms. Upgrading the human resources both in terms of fund managers and legal advisors remains a priority.

28. If human capacity were to be upgraded and a facilitating framework established, private equity and venture capital could play a significant role in upgrading the innovative capacity of key IT sectors. This effect could be further enhanced if Jordanian equity firms were to partner with established global players and leverage their know-how in local markets.

V. Existing Framework for Development of VC Industry

29. A number of business incubators, public sector agencies and finance organisations are involved in and relevant to the development of a robust private equity and venture capital industry in Jordan. In most cases, these organisations or Ministries are not directly involved in venture capital issues per se, but their activities indirectly impact the broad framework for innovation and finance in Jordan, and some of them could assume a more expansive role in supporting the venture capital industry. The following list, although not exhaustive, provides an indication of relevant bodies.

- *The Young Entrepreneurs Association* (<http://www.yea.com.jo>) is a voluntary non-profit organisation, established to create young entrepreneurs through exchange, fellowship, education, training and advocacy, and to enhance entrepreneurs' skill level. The Young Entrepreneurs Association has recently launched a “Venture Capital Funding Networking Service” in order to facilitate the establishment of new SMEs or supporting existing SMEs. It aims at assisting entrepreneurs in building on their ideas through mentorship by an advisory board in preparation to network with local, regional, and international venture capitalists.

⁶² The importance of clustering in the context of the Jordanian economy has also been supported by conclusions of the 2004 REACH report which found that “the IT industry can foster closer ties to the educational system, including funding and technical direction”.

⁶³ Refer to “Venture Capital Development in MENA Countries”, MENA-OECD Investment Programme Policy Brief, March 2006.

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- Jordan Information Technology Association (<http://www.it.jo/>) is a voluntary private organisation which aims to effectively represent, promote, and advance the Jordanian software and IT services industry in the global market. This association is the focal point for all Jordanian ICT industry-related activities. Its objectives are to advocate industry issues, promote industry investment opportunities, provide industry research and market information, effect quality control in the IT industry and support human resource development. The Association has been the engine behind the REACH initiative (<http://www.reach.jo>) discussed above, which devised recommendations highly relevant to development of the ICT sector in Jordan.
- *The Queen Rania Center for Entrepreneurship (QRCE)* is a direct embodiment of a new entrepreneurial culture emerging in Jordan and is meant to encourage its spread further. The center has been established in 2004 on the university campus, Princess Sumaya University for Technology. The QRCE will target university students, researchers, innovators, entrepreneurs and others. The next step in the development of this center will be to establish a business school and link it to the center. The Princess Sumaya University for Technology recently held a national entrepreneurship competition where participating student teams from different Jordanian universities were required to present a business plan for a technology-based entrepreneurial project of their choice. 42 different teams have submitted applications for this competition in 2005.
- *Ministry of Information and Communication Technology (ICT)* (<http://www.moict.gov.jo>) has been acting as an engine and a regulator of the high technology industry in Jordan. Private public partnerships have been relatively strong as the Ministry of Information and Communications Technology is working with Jordan's IT industry association to promote awareness of the ICT sector. The last REACH report, issued in 2004, has proposed establishing a clearing house for all ICT related initiatives, proposing the Ministry of ICT as the appropriate actor to act in this capacity.
- *Jordan Upgrading and Modernisation Programme* (www.jump.jo) is a joint endeavour between the public and private sectors, providing technical assistance, training and partial grants to industry to strengthen the managerial capabilities and technological capacities of SMEs in Jordan. As a national programme for upgrading and modernising Jordanian SMEs, JUMP was endorsed by the Jordanian Cabinet in October 2003. It is overseen by a 12 member Steering Committee, equally comprised of representatives of the private and public sectors, and headed by the Minister of Industry and Trade.
- *The Euro-Jordanian Action for the Development of Enterprise (EJADA)* (<http://www.ejada.jo>) was the first Industrial Modernisation Programme to be implemented in the South Mediterranean region. It was established between the European Commission and the Government of the Hashemite Kingdom of Jordan through an agreement signed in April 2000. The programme comprised four integrated Components – Policy Support & Industrial Strengthening, Direct Support to Small and Medium Enterprises (SMEs), Financial Support to SMEs and Vocational Training.
- *Jordan Securities Commission* (<http://www.jsc.gov.jo>) also has a role to play in establishing a more robust venture capital industry by facilitating listing by high growth firms on the Amman Stock Exchange. Given that Jordanian firms have generally not succeeded in listing on foreign growth exchanges such as the NYSE, plans to establish a regional IT stock market for listing and trading IT companies have been discussed. A new Regional IT Board was to provide means for IT companies in Jordan, Dubai and Bahrain to access capital for growth.

- *CONNECT* is an organisation that links entrepreneurs to financial, technical and business development resources they need to create and develop high-growth technology companies in Jordan. By organising activities and offering advice, *CONNECT* supports and improves the opportunities for entrepreneurs and start-ups. Working closely with *CONNECT* Sweden, *CONNECT* Jordan links entrepreneurs and resources through what is called springboards; springboards are intended to support the development of growth companies.

30. While a number of programmes by the Jordanian government have been targeted at improving the conditions for financing for entrepreneurs, they have primarily been oriented towards developing a local private equity industry. In this context, it is important to differentiate between two interrelated objectives for improving private equity/venture capital performance in Jordan. The first objective is to foster the establishment of a local venture capital industry. This goal is important given that foreign private equity players may flee the market in unfavourable economic situations more rapidly than locally based firms.

31. The second, and not mutually exclusive objective, is to attract foreign VC firms interested in investing in emerging market economies such as Jordan. A recent Deloitte survey titled “Venture Capital Goes Global” highlighted that PE/VC firms based in Europe and the US are seeking opportunities to invest abroad. In particular, the survey found that half of US-based VC firms are expecting to invest abroad by 2010.⁶⁴ This second alternative also represents a tangible avenue for Jordan to attract private equity to finance its entrepreneurs.

32. In addition to local participants, international organisations have also been involved in improving the viability, productivity and marketability of local SMEs. Perhaps most relevant for the purposes of improving the innovative capacity of the Jordanian IT industry has been a recent IFC regional industry development programme, established with the objective of building capacity of local ICT companies and increase utilisation of technology in vertical markets.⁶⁵

33. However, based on interviews with local venture capitalists, the regulatory framework for innovative finance is not ideal. Among the most significant obstacles cited were:

The lack of internal know-how by the Securities regulator relating to venture capital and private equity;

- No regulation of Collective Investment Schemes (although one was understood to be forthcoming);
- Forthcoming regulation is anticipated to be geared to address large financial institutions, and have onerous regulatory and licensing requirements;

⁶⁴ Deloitte, 2005.

⁶⁵ The program aims at delivering advisory services and strategic insight to local ICT firms in five main areas: organisation development and structuring, export oriented marketing and sales strategies, quality and management certifications, management and business training, partnerships/clustering, mergers, and expansion plans.

- Lack of government involvement in or incentives for establishment of venture capital financiers.⁶⁶

34. Other commonly cited impediments are: political instability; relatively small capital markets; information unreliability; limited exit strategies with underdeveloped and non-existence secondary markets; judicial system and regulatory framework inefficiency; resistance to loss of control of ownership; limited talent pool; return expectations; and limited deal flow.

VI. Challenges and Recommendations

35. *Challenge:* Demonstrating the benefits of Jordan as a location for operation of venture capital/private equity funds through conducive regulatory environment and fiscal incentives. According to interviews conducted with private equity players in the region, the lack of incentives is usually circumvented by legally establishing the company in one of the Gulf countries.

Recommendation: The government of Jordan could encourage greater concentration of venture capital/private equity by providing incentives for establishment of VC companies in Jordan or by funding foreign companies or local enterprises via means such as matching investment of private entrepreneurs by government funding (similar to an existing US model). Tax incentives could also be offered by the government to venture capitalists similar to the US or Israeli models which have proven successful.

36. *Challenge:* Obtaining early stage financing for enterprises, even those which have been formally incubated within existing business incubators. While business incubators, such as those mentioned above, are generally regarded by regional financiers as highly productive, the entrepreneurs which require substantial financing may not be able to succeed even if they have graduated from one of these incubators as there are presently very little linkages between these incubators and sources of financing. A business incubator may be able to recommend business angels to a particular entrepreneur, but this is the maximum of their capacity.

Recommendation: Create a seed and early stage fund and invite proposals from the private sector to manage this fund in a private-public partnership structure. The government should refrain from interfering directly in the operation of the fund, limiting its role to capital provision and selection of a qualified organisation to manage such a fund.⁶⁷ The participation of the government could take form of matching investment by private sector participants with public sector funding at a predetermined rate.

37. *Challenge:* As mentioned, there is currently no private equity association in Jordan, nor a regional association in which Jordan participates, although discussions are currently ongoing about the establishment of the MENA chapter of the EMPEA and the establishment of the Arab Private Equity and Venture Capital Association.

Recommendation: Government support of establishment of these associations would be welcome insofar as it would create a necessary framework for development of a local VC industry.

⁶⁶ Although a new tax law is anticipated, it is currently unknown to what extent, if any, it will provide for tax incentives for establishment of venture capital funds.

⁶⁷ The Government of Jordan has invested \$20 million in Jordan Fund which was intended to take the form of a private public partnership, but this fund has not been able to obtain the necessary financing on the private side. Explanations for this vary, including that the state stake was considered too significant, the fund was not targeting entrepreneurial ventures, etc.

38. *Challenge:* The legal framework for operation of venture capital firms is not optimal in that the current property and bankruptcy laws are perceived as not sufficiently developed.

Recommendation: Evaluation of the relevant legislation, including the mentioned laws, with a view to assess its consequence on potential entrepreneurs, should be considered.



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F. NATIONAL INVESTMENT REFORM AGENDA FOR THE KINGDOM OF JORDAN ⁶⁸

The following National Investment Reform Agenda has been developed by the OECD Secretariat in cooperation with the Jordanian Country Team and represents a working tool to note and measure investment reform progress in areas identified by the Jordanian government as those of priority. As such, this table is periodically updated and represents a work-in-progress.

Reform objective	Item Description	Required Action Steps	Timeline	Progress and Next Steps	Responsible Agency
1. Reform of Investment Promotion Law	Foreign investment in Jordan is regulated by Laws No. 16 of 1995 and No. 13 of 2000 which, taken together, offer a general regulatory framework for local and foreign investors and outline exemptions to FDI in areas such as certain industrial sectors, agriculture, hotels, hospitals, convention centres, theme parks and maritime/rail transport and the distribution of water and oil and gas products. These Laws were passed as “temporary laws”, and contain some contradictory clauses and an	<i>Government Action Steps:</i> Drafting a new comprehensive Jordan Investment Law or reforming current legal framework with a view to develop and strengthen the institutional structure of investment promotion and streamline the incentive schemes.	1 August, 2006	<i>-Completed:</i> On the occasion of the NIRA Workshop for Jordan, the Minister for Trade and Industry announced that the drafting of a new Investment Law was complete. This law consolidates certain regulations and reconsiders exceptions, institutional structure of investment promotion agencies, but does not stipulate clear investment incentives provided especially	JIB

⁶⁸ As of December 2006.

Reform objective	Item Description	Required Action Steps	Timeline	Progress and Next Steps	Responsible Agency
	<p>overly complex incentive system.</p>	<p>An assessment of the negative list of restrictions for foreign investors should be conducted.</p> <p>First draft of new Investment Law to be presented to private sector institutions for their feedback before being submitted to the council of Ministers and processed through to Parliament.</p>	<p>1 July, 2007</p> <p>1 September, 2006</p>	<p>within the free zones.</p> <p><i>-Pending</i></p> <p><i>-Completed:</i></p> <p>Private sector representatives at the Jordan NIRA Workshop have given presentations on the highlights of the new draft law and asked to provide feedback. Publication of the law in official newspapers and at the “<i>Kuluma Al Urdun</i>” Forum took place. Feedback received was taken into consideration and the draft law is still in the process of further reviews after several issues were raised by Parliamentary committees and the private sector, pertaining to exemptions</p>	
		<p>Presentation to Council of</p>	<p>1 October, 2006</p>		

Reform objective	Item Description	Required Action Steps	Timeline	Progress and Next Steps	Responsible Agency
		<p>Ministers.</p> <p>Presentation to Parliament</p>	<p>1 October, 2006</p>	<p><i>-Completed:</i> The Minister of Industry and Trade, and the CEO of JIB held talks with the Cabinet on finalizing the draft law.</p> <p><i>-In progress:</i> An extraordinary session of Parliament was called in October 2006, the Law was sent to the Legal Committee for comments. Issues such as lack of clarity on exemptions from income, sales and social services tax for investors have been highlighted. The draft Law also does not address the case of merging projects or privileges within special development zones on which the Government has been focusing on recently.</p> <p><i>-Completed:</i> During the Jordan NIRA workshop on the 19th of June, an OECD expert provided</p>	

Reform objective	Item Description	Required Action Steps	Timeline	Progress and Next Steps	Responsible Agency
<p>2. Improve the institutional structure of investment/export promotion</p>	<p>Several reform proposals have been put forward regarding the existing institutional overlap between the Economic Department of the Royal Court, the Jordan Investment Board (JIB), the Jordan Export Development corporation (JEDCO), the Jordan Industrial Estates Corporation (JIEC), and the Jordan Authority for Enterprise Development (JAED).</p> <p>A 2002 USAID audit of the institutional structure showed that “the organisational structures and human resources practices fall short in supporting current goals”.</p> <p>The National Agenda presented to the Jordanian government in September 2005 put forward recommendations for a new Institutional Framework which was discussed last year. It was suggested to merging relevant</p>	<p>according to best practices on investment laws</p> <p><i>Government Action Steps:</i></p> <p>Assess the benefits of the restructuring proposal with a view to enhance synergies between inward FDI promotion, upgrading Jordanian industry, export promotion and industrial real estate policies.</p> <p>Reach a decision on either merging investment institutions or empowering existing JIB structure.</p> <p>Clear definition of the relationship between the different relevant institutions to avoid overlap or confusion.</p>	<p>1 August, 2006 (in tandem with the final draft of the new Investment Law)</p> <p>1 October 2006 (Covered by new draft Law)</p> <p>1 October, 2006 (Covered by new draft law)</p>	<p>advice and recommendations on the new draft law.</p> <p><i>-In Progress:</i></p> <p>Meetings of the Jordanian National Agenda task force consisting of representatives from all relevant Investment entities and Government Performance Directorates took place as soon as the committee was formed in 2005. These meetings took place regularly until the official launch of the National Agenda in October 2006 at the Jordan NIRA Workshop, discussions on the draft new Investment Law - which clearly gives the existing JIB the mandate as the main institution for investment matters - was debated openly. Progress was made on clarifying potential future relationship between JIB and</p>	<p>JIB/ Government Performance Directorate.</p>

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Reform objective	Item Description	Required Action Steps	Timeline	Progress and Next Steps	Responsible Agency
	<p>investment institutions under the umbrella of The Jordan Authority for Enterprise Development (JAED).</p>	<p>Document and make available the information on the division of labor between the various institutions in a manner accessible to all investors.</p> <p>Selective recruitment of high caliber staff for such positions.</p> <p>Increasing the attractiveness and competitiveness of investment promotion positions.</p>	<p>1 December, 2006</p> <p>1 December, 2006</p> <p>1 December, 2006</p>	<p>JAED.</p> <p><i>-Completed:</i> Covered by new investment law.</p> <p><i>-In Progress:</i> Head-hunting and advertising through selective channels and alumni forums has led to a marked increase in quality applications for positions at the JIB. Interviews are ongoing for eventual selection of appropriate candidates.</p> <p><i>-Complete:</i> The budget of 5 Million JD which JIB requested from the Government has been approved. This budget takes into consideration high salary</p>	

Reform objective	Item Description	Required Action Steps	Timeline	Progress and Next Steps	Responsible Agency
3. Assess the effectiveness of newly established one-stop-shop in JIB	<p>In May 2004, the JIB launched a one-stop shop (OSS) with a view to register and license investor projects within 14 working days. The OSS facilitates the registration and licensing of investment projects, helps to identify investment opportunities and assists investors in finding a location for business operations. The OSS also facilitates approvals for investment incentives and ensures that the back-end operations (between the OSS and the relevant government bodies) are expedited for the benefit of the investor. However, problems in the process of granting of “Electronic-Visas” to potential</p>	<p><i>Programme Action Steps:</i></p> <p>Hold NIRA Workshop with OECD experts to discuss and recommend best practice on issues listed above.</p>	<p>19 June, 2006</p>	<p>scales for new recruits in key positions in JIB.</p> <p><i>-Completed</i></p>	<p>JIB/ Ajjdara</p>
		<p><i>Government Action Steps:</i></p> <p>Assessment of the effectiveness of the One Stop.</p>	<p>19 June, 2006</p>	<p><i>-Complete:</i></p> <p>A private consultancy firm was asked to assess the JIB’s OSS and the findings were presented at the NIRA Workshop. The reduction in days needed to register and license a business and streamlining measures were applauded, however it was remarked that for the OSS to reach its 2007 target of 7 days, the action steps reflected here should be adequately addressed.</p> <p><i>-In Progress</i></p>	<p>JIB/ Ajjdara</p>
		<p>Setting up an industrial map of the Kingdom.</p>	<p>30 September, 2006</p>		

Reform objective	Item Description	Required Action Steps	Timeline	Progress and Next Steps	Responsible Agency
	<p>investors have prevented the OSS from fulfilling its responsibilities optimally. Nonetheless, the initial signs are encouraging - the World Bank Doing Business Report (2006) noted a decrease in number of days to start a business to 36 (based on 2004 data) in comparison with a 98 days in 2003. This reduction of days to start a business followed the introduction of the OSS in Jordan.</p>	<p><i>Programme Action Steps:</i> Capacity building for OSS staff</p>	<p>1 November, 2006</p>	<p><i>-In Progress:</i> OSS drafting a technical assistance proposal for a possible joint OECD/EC collaboration.</p>	
<p>4. Tax Incentive Reform/ Income Tax Reform</p>	<p>The current Jordanian tax incentives schemes administered under three separate laws - the Investment Promotion Law of 1995 (IPL 1995), the Jordan Industrial Estates Corporation Law of 1985 (JIECL 1985), and Qualifying Industrial Zones law. Jordan's current investment incentive programme is seen by commentators as overly complicated. The main point of criticism relates to its selective focus on specific sectors and regions and the conditions for</p>	<p><i>Government Action Steps:</i> Exemptions should be replaced with a transparent and simple system that encourages capital investment, as recommended by a 2004 USAID report on tax incentives in Jordan. The effectiveness of Jordan's Free Zones Corporation and Aqaba Special Economic Zone should be assessed as part of this review and reform of tax incentives.</p>	<p>TBD</p>	<p><i>-In Progress:</i> The Minister of Finance is examining approaches to a comprehensive tax reform on a revenue-neutral basis that would eliminate tax distortions caused by the multi-leveled income tax rates. The tax reform options will be examined in tandem with an overhaul of the current tax incentive schemes. The Jordanian National Agenda Committee gave great</p>	<p>Tax Department, Ministry of Finance</p>

Reform objective	Item Description	Required Action Steps	Timeline	Progress and Next Steps	Responsible Agency
	exemptions it offers.	<p>Re-draft the Income Tax Law (Law No. 57 of 1983 and its amendments in 1992, 1995, 2001 and 2003) to create a more desirable tax environment for investment and improve compliance.</p> <p><i>Programme Action Steps:</i> OECD expert workshop on tax incentive reform, possibly as a joint event with Iraq.</p>	1 September, 2006	<p>weight to fiscal reform and has recommended a thorough revision of the tax system as a whole to simplify procedures, ensure fairness and equal treatment.</p> <p><i>-In Progress:</i> A draft new law has been sent to Parliament for approval.</p> <p><i>-In Progress:</i> Jordan has expressed its willingness to host a joint workshop with Iraq under the Programme to discuss tax incentive best practice.</p>	
5. Improving the environment for venture capital funds	The percentage of SMEs in Jordan's economy is estimated to reach 95-99%. Often, the source of capital for starting a business stems from savings of the owner, personal credit cards, home equity loans and funds from friends and the broader family. Access to venture capital financing, particularly at early stages of enterprise development, remains difficult, despite many	<p><i>Government Action Steps:</i> The availability of venture capital to companies, and the encouragement of wider corporate venturing relationships between investor and investee companies should be fostered by: Supporting public-private sector partnerships for establishing SME</p>	TBD	<p><i>-Pending:</i> The National Agenda is encouraging the establishment of Venture Capital funds to seek investments in local enterprises. The JIB has also been seeking greater buy-in of local banks to encourage their support for the development of such funds.</p>	TBD

Reform objective	Item Description	Required Action Steps	Timeline	Progress and Next Steps	Responsible Agency
	<p>technology upgrading initiatives and business incubators recently established in Jordan.</p>	<p>venture capital funds. This can be accomplished for example by matching private funding by foreign or local VC companies by government funding (similar to an existing US model). Alternatively, private sector proposals for managing a government fund to foster companies in strategic sectors can be solicited.</p> <p>Tax incentives could also be offered by the government to venture capitalists in line with models adopted by other countries which have proven successful.</p> <p>Government support of establishment of VC/PE associations would be welcome insofar as they would create a necessary framework for development of a local industry and support the development of human capacities.</p>		<p>A number of public sector initiatives to encourage entrepreneurship have been launched (REACH, CONNECT, etc.). Alongside these projects, privately run business incubators have been showing considerable success.</p> <p><i>-In Progress:</i> A new tax law is anticipated by industry participants to provide tax incentives to VC funds, although the exact substance is not yet known.</p> <p><i>-Pending:</i> Invite representatives of JUMP or another relevant government organisation to attend the workshop on venture capital legislation in Morocco hosted by the local venture capital association (AMIC) on 22 March 2007.</p>	

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Reform objective	Item Description	Required Action Steps	Timeline	Progress and Next Steps	Responsible Agency
		<p>Evaluation of the relevant legislation, including property and bankruptcy laws, with a view to assess their incentive for potential entrepreneurs, should be also considered.</p> <p>Continuing to encourage closer co-operation between industry, universities, and business incubators and establishment of programmes to help create new ventures within universities.</p> <p>Focus not only on IT, but also on other technical sectors, and also realize VC potential of more traditional technological innovations.</p> <p><i>Programme Action Steps:</i></p>		<p><i>-Pending</i></p> <p><i>In progress:</i> Private sector initiatives such as the establishment of the Queen Rania Centre for Entrepreneurship at the Princess Sumaya University have been noted for their success. Entrepreneurship competitions have been organised at the Princess Sumaya University and also by the Young Arab Leaders.</p>	

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Reform objective	Item Description	Required Action Steps	Timeline	Progress and Next Steps	Responsible Agency
		<p>Engage Jordanian venture capitalists and financing institutions in the MENA-OECD Enterprise Financing Network</p> <p>Provide commentary on taxation or other legislation affecting the creation of VC funds based on models adopted in OECD member countries and in the MENA region.</p>		<p>The competition at the Princess Sumaya University has received over 480 applications, and over 40 teams were selected.</p> <p>Invite Jordanian entrepreneurs to attend the next meeting of the Enterprise financing network</p>	
6. Introducing a Corporate Governance Code and establishing an Awareness Raising Campaign	<p>Creation of a Corporate Governance Code in Jordan is a key step in creating greater transparency and improving the investment climate in Jordan. The Jordanian Securities Commission and the World Bank launched work on a report relating to the Observance of Standards and Codes (ROSC) of which corporate governance is also a component. This work was launched at the meeting of the Working Group 5 of the MENA-OECD Investment</p>	<p>Implementation of the ROSC recommendations can provide for the main elements of a corporate governance action plan for Jordan. A result could be the development of a Corporate Governance Code for Jordan, on which discussions are underway within the Jordan Stock Exchange and the Central Bank.</p> <p>Definition of an awareness raising campaign, including training would be an area where the</p>		<p>Preliminary discussions on the drafting of a Corporate Governance code are currently taking place in Jordan. In parallel, the Jordanian Government is also proceeding with reform of the Company law. The existing company law already contains some of the key elements of good governance the enforcement of which remains a major issue.</p>	

Reform objective	Item Description	Required Action Steps	Timeline	Progress and Next Steps	Responsible Agency
	<p>Programme.</p> <p>The creation of a Code of Corporate Governance in Jordan would be helpful to increase transparency and investor confidence and provide detailed guidance for Boards of Directors (including duties, legal responsibilities, functions). Developing the concept of an “independent director” would be particularly important given the familial structure of a large proportion of Jordanian companies.</p> <p>There is a need for greater competency and a better understanding of governance issues within the justice system in order to ensure better enforcement.</p>	<p>Programme could assist the Jordanian Government.</p> <p>Training of lawyers on governance and company law matters was another area where additional expertise was sought.</p> <p>- Relevant body to call on all relevant stakeholders to express their interest in a codification project.</p> <p><i>Programme Action Steps:</i></p> <p>Expert co-ordination with the Company Controller’s office in order to provide feedback on the draft CG Code.</p> <p>Workshop to finalize the CG Code for Jordan</p> <p>-Workshop with the Securities Commission on CG for listed and non-listed companies</p>	<p>1 September, 2007</p> <p>1 November, 2007</p> <p>1 November, 2007</p>	<p>A variety of sectors could be considered for a governance code including small and medium size enterprises (SMEs) and State-Owned Enterprises (SOEs). While SOEs, SMEs and privately held companies all have unique governance issues, a corporate governance code that will likely be given priority will apply to listed companies only.</p>	

Reform objective	Item Description	Required Action Steps	Timeline	Progress and Next Steps	Responsible Agency
7. Implementation of new competition law including establishment of a new Competition Directorate	<p>In 2004, a new Competition Law (Law No. 33 of 2004) was endorsed by the Jordanian parliament. This law established the Competition Directorate, the Committee for Competition Affairs, and the Judicial Authority.</p> <p>The new law aims to:</p> <ul style="list-style-type: none"> - establish the principle of market mechanism and freedom of prices - protect consumer interests and the integrity of commercial transactions - safeguard competition and prohibit alliances and anti-competitive practices. 	<p>Additional capacity building assistance is requested for the Competition Directorate, the Committee for Competition Affairs, and the Judicial Authority on implementation of the competition law.</p> <p>Recommendations for improvement should be further developed in co-operation with experts in this field.</p>	REFORM MEASURES ENVISIONED FOR 2007		