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ASSISTANCE TO JORDAN INVESTMENT PROMOTION

DP/JOR/73/009

JORDAN

TERMINAL REPORT

Prepared for the Government of Jordan by the
United Nations Industrial Development Organization,
executing agency for the
United Nations Development Programme



United Nations Industrial Development Organization

United Nations Development Programme

ASSISTANCE TO JORDAN INVESTMENT PROMOTION

IP/JOR/73/009

JORDAN

Project findings and recommendations

Prepared for the Government of Jordan
by the United Nations Industrial Development Organization,
executing agency for the United Nations Development Programme



Based on the work of Hans P.F. Thiele, expert in investment promotion

United Nations Industrial Development Organization
Vienna, 1976

Explanatory notes

References to dollars (\$) are to United States dollars.

The monetary unit in Jordan is the dinar (JD). During the period covered by the report, the value of the dinar in relation to the United States dollar was JD 3 = \$US 1.

Use of a hyphen between dates (e.g., 1973-1975) indicates the full period involved, including the beginning and end years.

A full stop (.) is used to indicate decimals.

A comma (,) is used to distinguish thousands and millions.

JIPO is the Jordan Investment Promotion Office.

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ABSTRACT

In 1973, the Government of Jordan requested assistance for its Investment Promotion Office from the United Nations Development Programme (UNDP). At that time the Office was operating within the Ministry of Industry and Trade. Subsequently, the Ministry converted the Office into the Directorate of Industry Studies and Encouragement of Investment, and in 1975 the Project Document for "Assistance to Jordan Investment Promotion" (DP/JOR/73/009) was signed, with the United Nations Industrial Development Organization (UNIDO) designated executing agency and the Ministry of Industry and Trade government counterpart agency. The UNDP contribution was set at \$59,000 and the Government's contribution in kind at approximately \$30,000.

The purpose of the project was to assist the Government in establishing efficient national machinery for promoting both foreign and domestic investment. Project activities were carried out from October 1975 to September 1976 and comprised the services of an expert in investment promotion and the award of fellowships.

The main instruments for promoting investment in Jordan are the above-mentioned Directorate and the Encouragement of Investment Law. The Directorate, which is fully operational, assists in elaborating feasibility studies, prepares information material and administers the Encouragement of Investment Law. The Law, in the three and one-quarter years between its passage in October 1972 and the end of 1975, was responsible for investments of approximately JD 27.7 million, covering 156 projects. It provided incentives in the form of exemptions from import duty and income tax.

Another means of encouraging investment is through use of the various publications on local conditions and opportunities, in both Arabic and English. During the project, the UNIDO expert assisted in updating an old publication and in collecting material for a new one. He also helped to organize a symposium on Promotion of Industrial Development in Jordan, evaluate feasibility studies and advise a local industrial company on financial projections.

At the end of his assignment, he was able to make the following recommendations for improving the investment climate in Jordan:

1. The Directorate's statistics on the results of applying the Encouragement of Investment Law should be improved in order to facilitate economic evaluations

through cost-benefit comparisons. Such improved statistics would also be relevant to economic planning.

2. The publication of promotional literature should continue, since it provides information on both general investment conditions and specific projects.
3. The experience and knowledge of the Directorate's professional staff should be utilized to assist companies in implementing their industrial projects.
4. The technical facilities of the Directorate should be improved, especially with regard to English typing.
5. Consideration should be given to further technical assistance, this time in elaborating industrial feasibility studies, in particular those involving specialized technologies.

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INTRODUCTION

The Project Document for "Assistance to Jordan Investment Promotion" (DP/JOR/73/009) was signed in August 1975, with the United Nations Industrial Development Organization (UNIDO) as executing agency for the United Nations Development Programme (UNDP) and the Ministry of Industry and Trade as government counterpart agency. The project started on 16 October 1975 with the arrival of the UNIDO expert in investment promotion in Amman and was completed in early September 1976. As suggested by the UNDP Programme Officer in Amman to expedite the reporting process, the present terminal report incorporates an account of the expert's activities during the period from May to August 1976.

The original request of the Government of Jordan for assistance in investment promotion dates back to May 1973. At that time, the Jordan Investment Promotion Office (JIPO) was operating as part of the Ministry of Industry and Trade.

The main functions of JIPO were:

- (a) To acquaint prospective investors with investment opportunities;
- (b) To organize activities for the encouragement of local and foreign investment;
- (c) To maintain liaison between investors and government offices and authorities, including the newly created Industrial Development Corporation;
- (d) To disseminate information on investment conditions and opportunities in Jordan;
- (e) To assist investors in implementing their projects.

The Ministry of Industry and Trade then decided to transform JIPO into the Directorate of Industry Studies and Encouragement of Investment in order to strengthen its role and enlarge its staff. The Directorate is described later in this report; in common with JIPO, it has functions that were derived mainly from the Three-Year Development Plan 1973-1975 and the 1972 Encouragement of Investment Law.

The long-range objective of the project Assistance to Jordan Investment Promotion was to create efficient and competent national machinery for investment promotion. The immediate objectives were:

- (a) To conduct studies of investment conditions and opportunities;
- (b) To start promotional campaigns, using in particular publication of information on incentives and facilities for prospective investors;
- (c) To distribute information on all projects listed in the Five-Year Development Plan 1976-1980;
- (d) To examine and reformulate the existing measures to attract foreign and domestic investment.

The UNDP contribution of \$59,000 originally covered the services of one long-term and one short-term expert (\$45,000), four fellowships (\$12,000), equipment and miscellaneous (\$2,000). The government contribution in kind was estimated at JD 10,000 (approximately \$30,000), covering the costs of counterpart staff, secretarial assistance, local transportation and office facilities.

However, owing to the financial difficulties experienced by UNDP in early 1976, its contribution had to be slightly reduced by eliminating the equipment component and the short-term consultant. Furthermore, the nature of counterpart inputs changed after JIPO became a full Directorate within the Ministry of Industry and Trade, which consequently absorbed all the Directorate's expenses into its own budget without making separate provision for the project. Since the project objectives remained the same, neither of these changes necessitated an amendment of the Project Document.

I. FINDINGS

The Directorate of Industry Studies and Encouragement of Investment

The Directorate of Industry Studies and Encouragement of Investment is headed by a director and consists of the Industry Studies Section and the Encouragement of Investment Section.

The Industry Studies Section carries out the following main tasks:

- (a) Collects data for feasibility studies;
- (b) Assists foreign consultants in preparing studies;
- (c) Assists companies and entrepreneurs in implementing their industrial projects by giving advice on technical and commercial problems;
- (d) Prepares information material and summaries of studies for prospective investors, mainly on levels and development of imports of industrial goods;
- (e) Translates summaries of studies into Arabic.

This section is at present staffed by four officers, all of them with university educations.

The Encouragement of Investment Section has the following functions:

- (a) Informs prospective investors of the incentives provided under the Encouragement of Investment Law;
- (b) Acts as the secretariat of the Encouragement of Investment Committee (Sections 7 and 12 of the Law). In this capacity, the Section is responsible for:
 - (i) Studying all applications and statements before they are presented to the Committee;
 - (ii) Keeping minutes of the decisions and recommendations of the Committee and following up their implementation;
 - (iii) Keeping records of the amount of Arab and foreign capital invested in Jordan, of the number of projects that enjoy exemptions, facilities and guarantees under the Encouragement of Investment Law, and of all other information that the Committee may specify;
- (c) Prepares quarterly statistics of the estimated capital invested in and the number and sectoral distribution of projects that, in accordance with the Encouragement of Investment Law, have received approval as "economic" or "approved economic" projects.

Three officers (economists and engineers) and two clerks work in this section.

During most of the project, only one part-time typist for Arabic was available to the Directorate. Recently funds have been allocated for a typist for English, but so far no one has been engaged. This unsatisfactory situation hindered the work of both the Directorate and the UNIDO expert, especially in the preparation of promotional literature in English.

In all other respects, the efficient operation of the Directorate is ensured by the professional competence of its Director and officers.

The Encouragement of Investment Law

Principal provisions

The main instrument for promoting investment in Jordan is Encouragement of Investment Law No. 53 of 1972 and its Amending Law No. 60 of 1973. They are supported by liberal legislation on all economic matters, such as foreign trade, currency regulations, labour etc.

The main provisions of the Encouragement of Investment Law are given below:

- (a) The status of "economic project" may be granted to a project whose gross value-added is not less than 20 per cent of its cost. Furthermore, it must contribute to the goals of the development plan and to the balance of trade or payments;
- (b) The status of "approved economic project" may be granted to an economic project in industry, tourism, housing, land reclamation or sea transport, whose fixed assets excluding land are not less than JD 5,000 (industry), JD 15,000 (tourism) or JD 25,000 (housing and land reclamation);
- (c) An approved economic project is exempted from:
 - (i) Customs duties, fees and charges on imported fixed assets;
 - (ii) Income and social service tax on net profits for six years, or for nine years if the project is either a public shareholding company or an undertaking outside the area of the capital;
 - (iii) Building and land tax for five years, or for seven years if the conditions of (ii) are fulfilled;
- (d) An economic project may receive all or some of the exemptions listed above for approved economic projects;
- (e) State land may be granted to an approved economic project if it involves an enterprise outside the capital.

Results of the Law

The table shows the number of and estimated capital investment in economic and approved economic projects from 16 October 1972, when the Law went into force, to 31 December 1975.

The provisions of the Encouragement of Investment Law have, during a period of three and one-fourth years, attracted investments of approximately JD 27.7 million. A total of 156 economic and approved economic projects were established or extended. The average size of the projects, measured by the estimated capital investment, was JD 177,800, indicating the predominance of medium-sized enterprises.

Most of the investors' activity was concentrated on industrial projects. One hundred and thirty-two industrial companies (84.7% of the projects) were promoted, with an average investment per project of about JD 170,000. Projects involving hotels ranked second in importance, with 13 of them receiving a total estimated capital investment of JD 4.2 million, or JD 323,000 per project.

As of 31 December 1975, a total of 102 companies had started production, and 54 projects were still being implemented. The projects under implementation involve companies that are slightly larger than those already in operation, with an average investment of JD 193,000 compared with JD 170,000 previously.

The more favourable incentives of the approved economic project were granted to 104 applications with an estimated capital investment of JD 23.5 million, the highest proportion again being industrial projects with 82.8% of the total. The average investment within this group was JD 225,500 per project. In the economic-project category, the total number was 52, and the projects were comparatively smaller, with an average estimated capital investment of JD 82,400.

During the first half of 1976, 72 more projects were approved for exemptions by the Council of Ministers. In due course, the staff of the Directorate will prepare detailed statistics for 1976 as a whole, using data available in its files.

Other instruments for investment promotion

The Directorate is in charge of preparing and distributing promotional literature for prospective investors. At present the following publications are available in English:

Table. Capital investment engendered by Encouragement of Investment Law No. 53
and Amending Law No.60

(covering the period 16 October 1972 to 31 December 1975)

Economic and approved economic projects	Operational		Under implementation		Total		Percentage of total	
	No.	Estimated capital investment (thousand JD)	No.	Estimated capital investment (thousand JD)	No.	Estimated capital investment (thousand JD)	No.	Estimated capital investment
Industrial	87	14,212	45	8,175	132	22,387	84	81
Agricultural (farms)	8	556	1	50	9	606	6	2
Hotels	6	2,269	7	1,925	13	4,194	8	15
Tourist (buses)	1	300	-	-	1	300	1	1
Sea transport	-	-	1	250	1	250	1	1
Total	102	17,337	54	10,400	156	27,737	100	100

Investment Conditions and Opportunities in Jordan, November 1972

A Summary of Investment Conditions and Opportunities in Jordan, November 1972

Encouragement of Investment Law No. 53, 1972

Licensing and Control of Industry, Instruction No. 1, 1973

Registration of Foreign Companies Law No. 46, 1975

The publication setting forth the Encouragement of Investment Law has recently been revised with the incorporation of the 1973 Amending Law and is now being printed.

The expert invested a considerable amount of time in helping to update and improve the material contained in the 1972 publication on investment conditions and opportunities. The final draft has been ready for printing since February 1976, but the tender process is still under way. The new, more comprehensive publication will be entitled Business and Investment Guide to Jordan. It was described in the project periodic report for February - April 1976.

The expert also collected and prepared material for a second publication intended to complement the business guide by providing information on investment opportunities. This material deals mainly with:

An economic survey for the period 1971-1975

Descriptions of 13 industrial projects included in the Five-Year Development Plan 1976-1980

The 1974 industrial seminar

The over-all investment climate in Jordan

Owing to the lack of secretarial assistance, none of these tables and papers have been typed yet and it is impossible to predict what will become of them.

Summary of other activities

The other activities in which the expert engaged were covered in detail in his first and second periodic report. They may be summarized as follows:

(a) The stage of implementation of the five industrial projects included in the Three-Year Development Plan 1973-1975 was checked. At present no further promotional assistance is required, since companies have already been established and their management is proceeding with implementation;

(b) The expert assisted one of these companies, the Jordan Glass Company Ltd, in updating the 1972 feasibility study made for the project. His work included the preparation of a possible financial structure and of projected balance sheets to demonstrate the project's financial viability;

(c) The draft feasibility studies on selected industries prepared by the Australian consultants of W.D. Scott in connexion with the UNIDO/IBRD project DP/JOR/75/002 were studied and several suggestions were made for inclusion in the final version. A copy of the memorandum on the subject was attached to the expert's second periodic report;

(d) The expert, in collaboration with the head of the Directorate and supported by the Executive Director of the Amman Chamber of Industry, organized a symposium on Promotion of Industrial Development in Jordan. On the whole, the five sessions were quite successful. Details are given in the annex. The response from the private industrial sector was, however, not large enough to justify the repetition of the symposium;

(e) The UNIDO Senior Industrial Development Field Advisor for the region paid several visits to the project. He was given a detailed briefing by the expert on activities and technical problems.

II. RECOMMENDATIONS

Statistics of the Directorate

To obtain a clearer idea of the actual impact of the Encouragement of Investment Law on Jordan's economic development, it is recommended that the statistics of the Directorate be improved. The information compiled for each project promoted should include:

- Value of imported assets
- Total investment in fixed assets
- Amount exempt from import duties and fees
- Amount exempt from income tax and related taxes
- Value-added and production or service value (turn-over) generated by the new project or by its expansion
- Additional employment resulting from the project

Although difficulties may be encountered in obtaining this kind of information from private enterprises, it is felt that the Encouragement of Investment Law together with the process of application and approval provides sufficient leverage for the Directorate to undertake the exercise with success.

With the additional data, the instruments for investment promotion could be subjected to a cost-benefit analysis, in which the costs to the economy would be the waived taxes and duties and the benefits would be the values added. The statistics would also be useful for further economic planning in the sectors covered by the promotional legislation as well as for altering and improving the legislation itself.

Promotional publications

The publication and distribution of promotional literature has to be stepped up considerably if it is to have an impact on economic development and industrialization. The time factor involved in all development efforts is not yet fully appreciated. The Directorate and other authorities concerned should also remember that material, once updated, must be published soon to avoid its becoming outdated again.

The booklets now available to prospective investors, together with the Business and Investment Guide to Jordan which will be published soon, provide sufficient information in English on domestic conditions and legislation. However, they should also be made available in Arabic, since local and

neighbouring Arab businessmen are still the most important and active group of investors in industry. The professional staff of the Directorate is well qualified to translate this material.

Most importantly, the selected industrial projects for which the W.D. Scott consultants made prefeasibility studies should be promoted by publishing the Arabic and English summaries that have already been made. As suggested by the consultants, however, the project to establish an industrial estate at Amman should first be discussed within the Ministry of Industry and Trade, before the process of promoting and implementing it commences.

Project implementation

The Directorate employs an experienced staff of economists and engineers, whose expertise should also be utilized to assist companies in implementing their industrial projects. In principle, the board of directors and the management of each company is responsible for the implementation. Several of the larger projects, however, especially those intended to exploit natural resources such as minerals, are of such importance for the whole economy that their rapid implementation in accordance with the targets of the Five-Year Development Plan deserves public attention. For this reason, the Directorate's staff should take part in ensuring that the projects are developed as expeditiously as possible.

Technical facilities of the Directorate

The importance of adequate technical facilities to serve the Directorate and its clients is stressed. The offices of the Directorate are still accommodated outside the Ministry, and foreign visitors have difficulty finding them. The expert's proposal to establish a single office for prospective investors should be pursued. Moreover, secretarial assistance for English typing is urgently needed, especially for the Directorate's publications.

Further technical assistance requirements

As explained earlier, the Directorate is fully operational and does not appear to need technical assistance for its day-to-day work.

However, the elaboration of feasibility or prefeasibility studies sometimes requires specialized knowledge of technologies and processes that is unavailable locally. It would thus be advisable to continue providing technical assistance to the Directorate in this area. The choice of studies could be based on the list compiled by the W.D. Scott consultants of projects with a volume of consumption and imports justifying further investigation. It would be best to commission the studies when the implementation of the projects proposed so far is well under way, so that their impact on industrial development can be judged.

Annex

SYMPOSIUM ON PROMOTION OF INDUSTRIAL DEVELOPMENT IN JORDAN

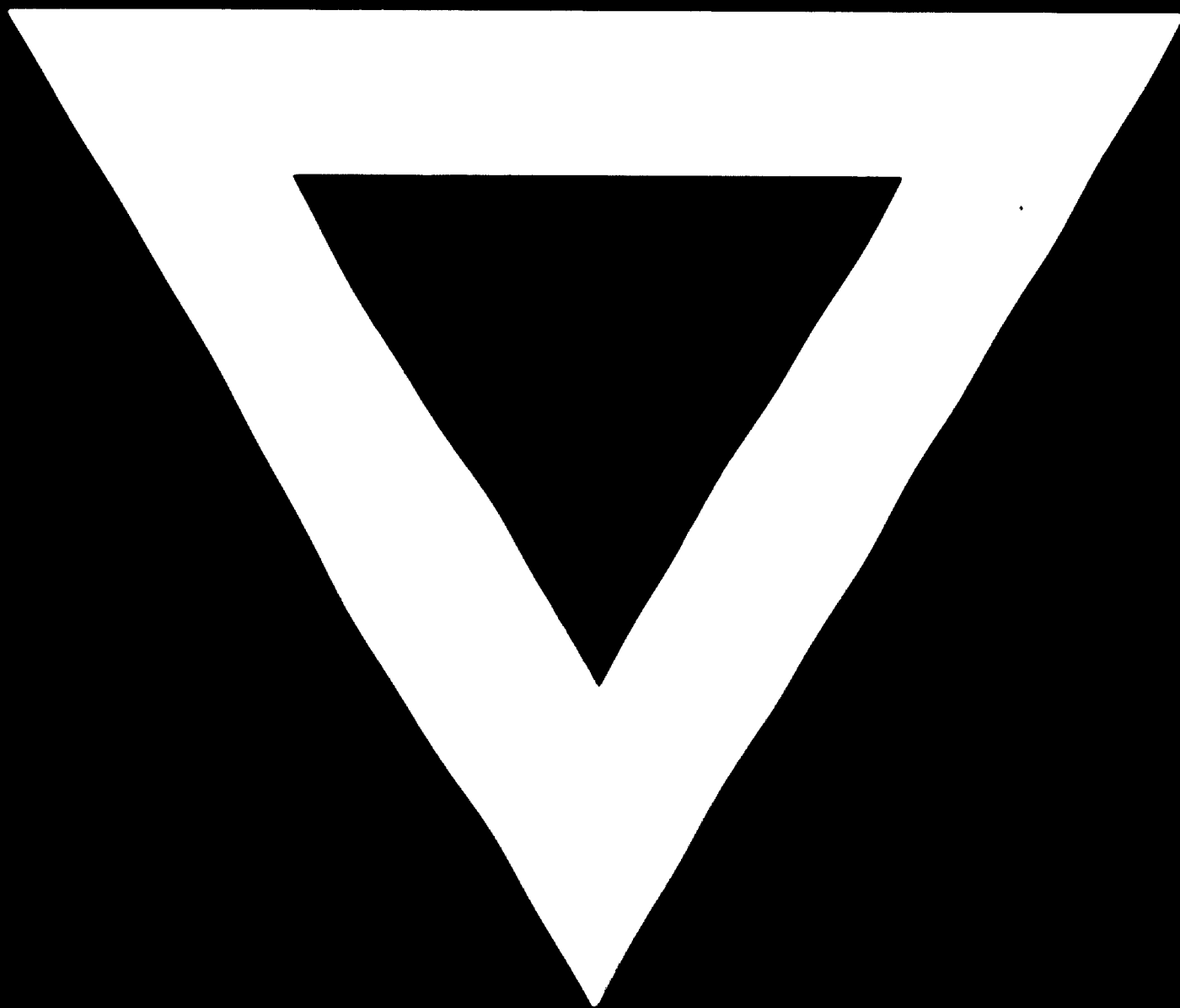
Programme

- Wednesday
30 June 1976 Introduction: General issues of industrial policy and
various promotional instruments
 Hans Thiele, UNIDO expert in investment promotion
- Wednesday
7 July 1976 Licensing and control of industry in Jordan
 Tawfiq Battarseh, Director, Directorate of Industry,
Ministry of Industry and Trade
- Encouragement of investment law results achieved so far
 Yussef Milhem, Section Head, Directorate of Industry
 Studies and Encouragement of Investment,
Ministry of Industry and Trade
- Wednesday
14 July 1976 The functions and performance of the Industrial Development Bank
 Ahmed Eid, Head, Investment Department, Industrial
Development Bank
- Wednesday
21 July 1976 The influence of Jordan's customs legislation on
industrial development
 Saood Abdul Quader, Attorney, Ministry of Finance/Customs
- Wednesday
28 July 1976 Encouragement measures expected by the private sector
 Ali Dajani, Director-General, Amman Chamber of Industry

List of participants

Muathasam Jaouni, Jordan Petroleum Company
Fahmy en Shasi, Mastio and Powder Company
Nazr Nazrani, Pharmaceutical Company
Yaya Shaqwarah, Royal Scientific Society
Marwan Hayek, Royal Scientific Society
Abed al Quader Shoman, Ministry of Tourism
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