STRATEGY AND ACTION PLAN TO IMPLEMENT THE MERGER OF JORDAN'S INDUSTRIAL ESTATE AND FREE ZONE REGIMES

\- FINAL REPORT -

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ACRONYMS

AMIR	USAID Achievement of Market-Oriented Results Program
ASEZ	Aqaba Special Economic Zone
DAL	Development Areas Law
DZC	Development Zones Commission
FZs	Free Zones
FZC	Free Zones Corporation
GoJ	Government of Jordan
IEs	Industrial Estates
IPL	Investment Promotion Law
JIB	Jordan Investment Board
JIEC	Jordan Industrial Estates Corporation
JIEFZC	Jordan Industrial Estates and Free Zones Corporation
MIT	Ministry of Industry and Trade
METR	Marginal Effective Tax Rates
SABEQ Program	USAID Jordan Economic Development Program
USAID	U.S. Agency for International Development

EXECUTIVE SUMMARY

The Government of Jordan (GOJ) is moving ahead with merging the Jordan Industrial Estates Corporation (JIEC) and the Free Zones Corporation (FZC). The merger program was suspended in recent months pending the completion of an asset valuation exercise which has now been finalized, and the passage of a proposed income tax code intended to replace all investment incentives with a simplified income tax regime, which has not been passed by Parliament. However, in the interim, Parliament enacted new legislation extending the Aqaba Special Economic Zone (ASEZ) regime to development areas to be established throughout Jordan under the direction of the Development Zones Commission (DZC). The Development Areas Law significantly changes the regulatory and policy environment for Industrial Estates (IE) and Free Zones (FZ) in Jordan.

This report outlines a strategy and action plan to implement the JIEC / FZC merger in the short- and medium-term. It also briefly addresses the key policy issues in the medium- to long-term related to revising industrial estate and free zone policy in Jordan and the merger of the two entities responsible for regulating and developing estates and zones..

STRATEGIC ISSUES

Several factors were considered in drafting this merger strategy to better understand the current and future role of the GoJ in operating industrial estates and free zones in Jordan, inclcuding demand trends, private sector appetite to operate public property, and the role of industrial estates and free zones in economic development in Jordan. None of these issues prevent the merger of the JIEC and FZC for reasons of national interest. The merger is anticipated to result in marketing and inventory control benefits and operational efficiencies in managing public property, including:

Marketing and Inventory Control

- Consolidating all similar public property into one well-managed portfolio will make it simpler for investors to deal with one entity for renting/buying public industrial and commercial property;
- Consolidation of the inventory of JIEC and FZC will allow a greater reach for the new entity, and better planning for new inventory requirements and the use of existing inventory; and
- Leveraging additional customer activity off the existing customer base for both existing corporations. The new entity can offer a wider array of products to customers.

Operations

- Streamlining public property management and operations— the similarity of the core business of JIEC and FZC allow for common central services to be developed in an efficient way and the higher utilization of internal capacities;
- This results in reduced overhead costs of managing and operating public property;
- Increasing efficiencies in marketing public property and investment promotion activities due to the use of shared resources; and
- Economies of scale available to the merged entity should further increase operational efficiency and reduce costs.

Strategy for Privatization

- The new entity will be one step toward privatization because of the separate regulatory and operational functions within the new entity's structure;
- Any future privatization transaction for the merged entity will be simpler and will be more attractive to the market: — privatizing one, merged entity is simpler and faster than privatizing two entities separately;
- The costs associated with any future privatization transaction of the merged entity will be smaller, e.g. the costs of preparing tender documents and searching for developers/operators;
- The attractiveness of the future privatization deal will be increased — potential investors may be more interested in managing/operating one merged entity with a large portfolio; and
- The potential maximization of privatization proceeds— privatizing one, merged entity may generate more revenues than privatizing two entities separately.

Moving forward, and given that the JIEC and FZC have different structures, a new entity needs to be established— the Jordan Industrial Estates and Free Zones Corporation (JIEFZC), which will take over most of the functions, roles, and authorities of the JIEC and FZC. The merged entity is envisaged to have a flexible administrative structure, operate on a commercial basis, compete fairly with private sector operators/developers, and clearly separate operational functions from regulatory roles.

ACTION PLAN TO IMPLEMENT THE JIEC / FZC MERGER

The merger is proposed to be carried out in a two-phase implementation plan as described below. The initial phase – the Transition Phase – is the most important one since it involves the passage of a new law thus making an irreversible change to both corporations.

Phase I — Transition

A 6-month transition period is proposed. The transition phase will start once the Boards of JIEC and FZC, the Minister of Finance, and the Minister of Industry and Trade approve the merger strategic direction and action plan outlined in this report. The primary milestone, which is anticipated to take place within three months of initiating this phase, is to pass a law that extinguishes JIEC and FZC, and establishes the new entity as a public shareholding company. Other preparations for the merger have commenced. An inventory and valuation exercise is complete and human resources planning is starting, taking into consideration analyses initiated under the AMIR program – see the Annex to this report on Human Resources. The boards shall discuss with shareholders the valuation of shares in the existing entities and agree on the contribution to shares in the new entity. Regulatory functions will be identified and transferred to a new division within the new entity. The new entity – the JIEFZC - will be operational, as a single entity, by the end of this phase— in six months from initiating the merger process. The transition phase action items and their respective timeframes and responsibilities are detailed in the following chapter. Timing of this phase and subsequent ones depend on passing the law within the expected timeframe of six months.

For the transition phase, this report provides a 6-month timeline for implementation — with activities summarized in weeks. The transition phase action items are divided into six main sections as follows:

- Legal and regulatory issues;
- Management issues;
- Personnel issues;
- Investment promotion/marketing issues;
- Financial issues; and
- Public relations and awareness issues.

Phase II — Operation

The transition phase will be followed by the operation phase in which the new merged entity will carry out the former JIEC's and FZC's operational functions and their regulatory activities. JIEFZC's main objective, during this phase, will be to efficiently manage its property portfolio and effectively market the property to investors in industrial and commercial sectors. In addition, and in cooperation with the Executive Privatization Commission, preparatory work to privatize property development, management, and operation will be undertaken throughout this phase. This will include the development of transparent criteria for decisions on new products and properties to be made available to the marketplace, and the formation of strong market linkages with the owners and operators of existing industrial estates and free zones in Jordan and the region in preparation for upcoming privatization or outsourcing transactions.

REFORMING ESTATE AND FREE ZONE FISCAL INCENTIVES IN THE MEDIUM- TO LONG-TERM

This report also sets out three fiscal reform options to be considered in the medium- to long-term, including 1. Harmonize with the Development Area Regime, 2. Continue the Status Quo, and 3. Harmonize and Reform, which this report recommends for adoption:

> *Harmonize and Reform* – Adopt development areas treatment of exporters, transit traders and sales within estates and zones, i.e. exporters are exempt until 2015 then subject to 5% income tax. IPL (Investment Promotion Law) and JIEC tax holidays are replaced with an income tax treatment that removes the bias favoring manufacturing over services. Given the reluctance of Jordanian manufacturers to increase their statutory rate of income tax from either 11.25% or 15% to the 20% proposed in the draft Tax Code, an alternative is to apply the same 15% rate to both manufacturing and services undertaken in estates and zones and sold into the domestic customs territory. Furthermore, as recommended by Chen, et. Al., customs duties on all machinery and equipment including spare parts should be eliminated. Remaining tax measures could be as provided in the draft Tax Code, i.e. five year loss carry forward, new depreciation rates, 10% withholding tax on Jordanian source investment income paid to resident and non-resident natural and legal persons, etc.[1] The net result will be an increase in the current Marginal Effective Tax Rate (METR) on manufacturers and a decrease in the METR on service providers.

All Jordan's investment incentive regimes should align themselves as much as possible. Overlapping regimes creates confusion, administrative and compliance costs, and opportunities for income tax evasion. Given that the ASEZ model has been adopted and extended to

[1] Note that dividends earned by legal persons are not assessable in the draft Tax Code – see article 226 (1)(a).

potentially apply in any development area throughout Jordan, then the JIEC and FZC have little choice but to follow suit with respect to earnings derived from exports and sales within estates and zones. A major question is what happens after 2015 to the tax treatment of export earnings. A special estate or zone income tax rate of five percent on export earnings, if not a prohibited subsidy, is likely an actionable subsidy and could lead other WTO member countries to bring an action on behalf of their adversely affected producers.

The other critical fault with all Jordan's incentive regimes is their reliance on exempting exporters from customs duties. This is contrary to the EU principle that duty preferences upon entry into the EU will not be provided to exports produced in its Euro-Med partners using any form of duty drawback or exemption. Similar principals apply to exports from free zones in the GAFTA and COMESA agreements. If these principals are strictly enforced then all zones and estates in Jordan cannot become havens for exports to the EU and MENA region.[2] The only alternative is to eliminate duties in the customs tariff schedule on inputs into manufacturing and services. Such duties are already very low and are being eliminated if sourced from free trade partners. The Ministry of Industry and Trade (MIT) and Jordan Customs worked closely to eliminate such duties from inputs into the garment industry – and should do so for all major industries.

Continuing the IPL incentive regime on domestic sales maintains existing distortions against investment in service production and is not necessarily effective in attracting new manufacturing investment. As Chen, et. al., show, the METR actually falls for Zone A manufacturers when their income tax preference is removed, while maintaining zero duties on capital equipment and spare parts (see discussion below).

Option Three: Advantages

1. Improves tax efficiency by removing the current distortionary tax bias against investment in services. Earnings from all economic activities should be taxed at the same rate – although definition of assessable income can vary between industries. This could be the single most effective measure to facilitate new investment in business process outsourcing, IT and other key service sectors.
2. Tests a flat rate of income tax on all economic activities (except banking and financial services) within zones and estates selling domestically. If successfully accepted by the private sector then the 15% flat rate could be adopted nationally, overcoming the current resistance to a flat rate of 20% corporate income tax.
3. Revenue loss from lowering the tax rate on services is mitigated by eliminating the IPL incentives on hotels and limiting the current levels of loss carry forward and depreciation allowances for both manufacturers and service providers.
4. Investors currently enjoying IPL incentives have to accept that these are finite term incentives – they are intended to end after ten years
5. Duties on capital equipment imports and spare parts are currently zero for most tariff lines, and will soon be zero for all tariff lines under Jordan's trade agreements. So foregone revenue is minimized and publicity maximized by offering zero tariffs on capital imports for the whole country.
6. Eliminating tariffs on capital equipment, etc is the only way to maintain competitiveness for Jordanian manufacturers and service providers while permitting estates and zones to export to the EU and GAFTA members.

[2] Exports to the US under the QIZ arrangement or FTA are not subject to such requirements.

7. If and when WTO members no longer permit Jordan to offer prohibited export subsidies, then the measures proposed in this paper for domestic sales can be applied to export earnings.

Option Three: Disadvantages

1. The main disadvantage is potential revenue loss from current taxation on communication and trading services. Further work is necessary to determine the level of potential revenue loss and considering redefining assessable net income for service sectors. Chen et al find that reducing the statutory rate on communication from 25% to 15% only decreases their METR by 1.7 percentage points. A much larger decrease in METR would arise from the elimination of duties on capital equipment imported by communication companies – up to 9 percentage points – but likely to be smaller today since duties have reduced since 2004 when Chen conducted her study.
2. A potential perception of an increase in taxation on manufacturing. However, effective taxation is unlikely to increase because manufacturers will now be able to carry forward their losses. Chen et al estimated that about 30% of Jordanian manufacturers were paying the 11.25% income tax rate. See table 3.1 below – the METR on Zone A manufacturers enjoying IPL benefits outside of industrial estates is 10.7%. By replacing the preferential statutory rate of 11.25% for manufacturers with an income tax rate of 15% but retaining the exemption from capital import duties the resulting METR is 10.5%. This surprising result is because there is no loss carry forward under the IPL incentives, so manufacturers incurring operational losses during their first few years cannot take advantage of their lower rate of income tax.[3]

Regulation

To avoid duplicating efforts or burdening the GOJ with creating new bodies unnecessarily, it is not recommended to establish a regulatory commission to regulate IE/FZ operations. The DZC is the most suitable institution to handle these regulatory functions. However, until the DZC is able and willing to accept these additional responsibilities, it is recommended that all IE and FZ regulatory functions be grouped into one operational department within the new merged entity and report to the Minister of Industry and Trade. This will leverage existing institutional knowledge and skills, while ensuring a degree of external oversight. This regulatory department should merge with the DZC or other suitable entity as soon as possible. Whatever form the IE/FZ regulator takes, it may delegate standard regulatory tasks, such as issuing licenses and enterprise inspections, to developers, including the merged entity.

[3] An important caveat exists here – Chen et al calculated their METRs based on indefinite loss carry forward. The draft tax code limits loss carry forward to five years. All METRs should be recalculated under the five year scenario.

1.0 INTRODUCTION AND BACKGROUND

This report briefly addresses the key issues related to revising industrial estate and free zone policy in Jordan and the merger of the two entities responsible of regulating and developing estates and zones.

Considerable work has already been undertaken to explore these issues – this work is referred to and summarized in this report but is not repeated in detail.[4] These reports recommend:

1) The existing complex set of competing investment incentive regimes are replaced eventually by a simplified common income tax
2) Estates and zones provide infrastructure and regulatory excellence to manufacturers, service providers and traders – rather than direct investment based on competing investment incentives
3) Private and public sector developers and operators of estates and zones be treated equally by separating zone and estate regulatory functions into an independent public entity
4) Sufficient operational and marketing benefits exist to merge the assets and operations of the JIEC and FZC into a public shareholding company. This could also permit greater private sector participation in the development and operation of estates and zones.

The JIEC and the FZC were established and are governed by two different laws[5]. This has direct implications on their structure, management, personnel issues, auditing accounts, and private sector participation. The JIEC is a non-official public institution (semi-government), has its own capital which is partly owned by the private sector, and is managed by a Board of Directors that includes representatives from the private sector. JIEC's Board appoints the Chief Executive Officer (CEO), issues the institution's personnel instructions, and approves JIEC's balance sheet and accounts. The FZC, on the other hand, is an official public institution that is entirely owned and managed by the public sector. Its Board and Director General are appointed by the Council of Ministers, and its staff is managed by the Civil Service By-law. FZC's accounts are monitored and supervised by the Audit Bureau. In summary, JIEC's legal structure is much more flexible than FZC's and is –to a certain extent- similar to private sector actors'.

The core business of the JIEC and the FZC is similar as both institutions develop, operate, and market public property. However, their day-to-day activities and their business models differ

[4]

Review of Free Zone and Industrial Estate Policy and Practice in Jordan – Implications for Local Economic Development, Geoff Wright / BearingPoint, SABEQ Program, September 2007
Review of Human Resources Issues Relating to the JIEC-FZC Merger, Arwa Muthaffar / Chemonics International Inc., AMIR Program, July 2006
Clarify Regulatory Issues for JIEC-FZC Merger Law , Reem Aloul and Geoff Wright /The Services Group Inc., Souad Abdelhamid / Chemonics International Inc. AMIR Program, July 2006.
Jordan Industrial Estates Corporation and Free Zones Corporation Merger Strategy, Draft Report; Reem Aloul and Jim O'Gara / The Services Group, AMIR Program, January 2006
Duanjie Chen, Jack Mintz, Gabi Afram, Reem Goussous; *Reformulating the Tax Incentive Program in Jordan: Analysis and Recommendations*, AMIR Program, July 2004

[5] Law No. 59 of 1985 (the JIEC Law) and Law No. 32 of 1984 (the FZC Law)

considerably due to the nature of the customs-controlled operations of the FZC. The JIEC operates as an industrial platform while the FZC's model is an efficient and secure warehousing operation with minimal bureaucracy and taxation. The JIEC sells and rents property while the FZC only rents property. Currently, both institutions execute numerous regulatory functions in addition to their operational activities. These regulatory functions include issuing business registration certificates, vocational licenses, building/construction permits, and certificates of origin, in addition to protecting the environment. Both institutions offer their clients serviced property, investor facilitation services, and a package of unique and different fiscal incentives in accordance with their respective Laws. It is worth mentioning here that the GoJ is moving toward a national investment promotion scheme unifying fiscal incentives offered to investors in all sectors and all locations, so this aspect of JIEC's and FZC's functions will be subject to change in the future – irrespective of the merger being carried out or not.

Financially, both JIEC and FZC yield a substantial return on investment as measured in their respective accounts. However this is based on counting revenues that may not continue in a post-merger situation where regulatory functions and their associated revenues could potentially be moved elsewhere. Returns from property-based operations are adequate, and aggregate revenues are growing.

Following approval for the merger by the Minister of Industry and Trade and discussion within Cabinet in 2006, the JIEC and FZC undertook an asset valuation exercise. This exercise has now been completed and both boards are interested to commence steps to merge the two entities. Another reason to delay the merger was to await any change in Jordan's income tax policy. A draft tax law, currently before a Cabinet Committee, consolidates income and sales tax legislation, reforms tax administration and introduces a flat 20 percent income tax rate on corporations – except for 35% on banks and financial institutions – to replace existing investment incentives. However, after an earlier version of the draft law was rejected by Parliament two years ago there still appears to be no political consensus to effectively increase the rate of income tax on manufacturing and farming. Therefore, the result of the draft tax law remains uncertain.

1.1 MERGER JUSTIFICATION AND BENEFITS

Several factors were considered in drafting this merger strategy to better understand the current and future role of the GoJ in operating industrial estates and free zones in Jordan. These include demand trends, private sector appetite to operate public property, and the role of industrial estates and free zones in economic development in Jordan.

None of these issues prevents the merger of the JIEC and FZC for reasons of national interest. However, in keeping with good practice for public property, subsidies will have to be identified and their impact on the economy of Jordan and on private sector providers and competitors will have to be taken into account in the future planning of IEs and FZs.

The merger is anticipated to result in marketing and inventory control benefits and operational efficiencies in managing public property. It isalso envisioned to set the path for future privatization of the merged entity, which in fact is foreseen as a step of the overall implementation plan of the merger.

Marketing and Inventory Control

- Consolidating all similar public property into one well-managed portfolio will make it simpler for investors to deal with one entity for renting/buying public industrial and commercial property;
- Consolidation of the inventory of JIEC and FZC will allow a greater reach for the new entity, and better planning for new inventory requirements and the use of existing inventory; and
- Leveraging additional customer activity off the existing customer base for both existing corporations. The new entity can offer a wider array of products to customers.

Operations

- Streamlining public property management and operations— the similarity of the core business of JIEC and FZC allow for common central services to be developed in an efficient way and the higher utilization of internal capacities;
- This results in reduced overhead costs of managing and operating public property;
- Increasing efficiencies in marketing public property and investment promotion activities due to the use of shared resources; and
- Economies of scale available to the merged entity should further increase operational efficiency and reduce costs.

Strategy for Privatization

- The new entity will be one step toward privatization because of the separate regulatory and operational functions within the new entity's structure;
- Any future privatization transaction for the merged entity will be simpler and will be more attractive to the market: — privatizing one, merged entity is simpler and faster than privatizing two entities separately;
- The costs associated with any future privatization transaction of the merged entity will be smaller, e.g. the costs of preparing tender documents and searching for developers/operators;
- The attractiveness of the future privatization deal will be increased — potential investors may be more interested in managing/operating one merged entity with a large portfolio; and
- The potential maximization of privatization proceeds— privatizing one, merged entity may generate more revenues than privatizing two entities separately.

Moving forward, and given that the JIEC and FZC have different structures, a new entity needs to be established— the Jordan Industrial Estates and Free Zones Corporation (JIEFZC), which will take over most of the functions, roles, and authorities of the JIEC and FZC. The merged entity is envisaged to have a flexible administrative structure, operate on a commercial basis, compete fairly with private sector operators/developers, and clearly separate operational functions from regulatory roles.

1.2 REGULATORY ISSUES

The following table describes basic functions of a zone or estate regulator.

Designate SEZs	Facilitate Government Services	Coordinate with other Bodies	Monitor Compliance
• Designate public and private land as SEZs and land owners or their agents as SEZ developers and/or operators.	• Facilitate licensing, permitting and regulatory services within the SEZ; particularly relating to land use, business licensing, environmental permitting, building permitting and labor regulation including foreign work permits, and inspections. Facilitation of business registration, utility regulation and dispute resolution is also desirable if national practice in these areas is poor. The regulator may set fees commensurate with the cost of service delivery in these areas.	• In facilitating the delivery of government services (i.e. customs and tax administration, etc.), the regulator should oversee how they are delivered by other ministries and public agencies, and coordinate this delivery with them. If vested with broad powers, the regulator should also have the authority to delegate the performance of such functions to the operator, any other agency, or person – subject to service delivery agreements or memoranda of understanding.	• Monitor compliance with the SEZ legal framework, including SEZ policies, standards and requirements, e.g. through risk-based monitoring and inspection techniques, and enforce compliance through appropriate penalties independently from other public agencies.

In addition to the operational side of the business, both institutions exercise regulatory functions. The JIEC acts as a municipality and a local/regional planning committee within its IEs, issuing vocational licenses and construction permits. It also enforces the national law for the protection of the environment within its IEs. The FZC exercises regulatory functions too. It registers and licenses companies to operate in FZs, issues certificates of origin, exercises the powers of the Ministry of Environment within its FZs, and licenses private FZs. The Customs Department/Ministry of Finance controls customs-related functions at all gates of public and private FZs. However the FZC facilitates the record-keeping and control of goods within the FZ, including the transfer of duty-free goods between FZ enterprises. A copy of the FZ Entry Declaration, which is issued by the FZC upon inspecting incoming goods, is sent to the Customs Department.

Other zone regulators exist in Jordan. The ASEZ and development areas are regulated by their own independent regulators created under their own laws and exercising very similar authorities. Parliament is likely to resist the creation of a third independent regulator. Ideally, one body would regulate all zones and estates in the country with branch offices at each zone. Understandably, the newly created Development Zones Commission is reluctant to take on extra regulatory responsibility by regulating existing industrial estates and free zones, while it is building its own capacity to fulfill its mandate.

There are also important regulatory functions that JIEC and FZC currently exercise but cannot be exercised by private industrial estates. In particular, JIEC has full municipal power within its estates to control garbage collection, sewerage collection, road building and to issue building permits and professional licenses. Private industrial estates do not have this authority and sometimes have to pay and provide these services out of their own budgets to investors within their estates, in addition to continuing to deal with and pay local municipalities. Furthermore, investors within private estates are still required to deal directly with municipalities in order to be licensed and commence operating. Issuing professional licenses can take many weeks and involve significant confusion for investors.

Licensing and regulating private IEs is the responsibility of the Ministry of Industry and Trade as per Regulation No. 117 of 2004. The regulation was loosely based on the report on Regulation of Private Industrial Estates in Jordan, AMIR Program, February 2004, with certain key omissions. The Regulation has not yet been implemented by MIT— no private sector developer/operator submitted an application since the Regulation was put in place. It is recommended that Regulation No. 117 of 2004 be amended to address the flaws highlighted above and that it should be -to the largest extent possible- in conformity with the report on Regulation of Private Industrial Estates in Jordan, AMIR Program, February 2004.

Current Allocation of Regulatory Functions

Organization	Main Regulatory Functions
JIEC	▪ Issuing vocational licenses ▪ Issuing construction permits ▪ Enforcing the national law for the protection of environment ▪ Providing fiscal incentives
FZC	▪ Registering and licensing companies to operate in FZs ▪ Issuing certificates of origin ▪ Enforcing the law for the protection of the environment ▪ Licensing/establishing private FZs ▪ Providing fiscal incentives
MIT	▪ Licensing and regulating private IEs
Council of Ministers	▪ Designation of an area as an IE
Customs Dept	▪ Controlling customs-related functions at all gates of public and private FZs

Conclusions. Given that one objective of merging JIEC and FZC is to create an entity that will be amenable to future privatization, it is recommended that the new entity does not -to the largest extent possible- exercise regulatory activities especially those related to licensing and regulating private operators. This is to encourage private sector participation in IEs and FZs operations and to help create a favorable competitive environment.

On the other hand, both institutions have been efficiently executing investor facilitation services, e.g., company registration and issuance of vocational licenses. It is important to continue providing such services for investors establishing industrial and commercial projects in IEs and FZs in the same efficient manner. These investors contribute to raising investment levels, increasing export and transit activities, and creating more jobs in Jordan. While these functions may be separated internally within the new entity as a prelude to privatization, they should be retained within the new entity until proficient capacities at the Development Zones Commission or other relevant GoJ departments and municipalities are built to adequately process these services.

Customs control must continue to be the responsibility of the Customs Department.

Regulatory Commission

To avoid duplicating efforts or burdening the GOJ with creating new bodies unnecessarily, it is not recommended to establish a regulatory commission to regulate IE/FZ operations. The DZC is the most suitable institution to handle these regulatory functions. However, until the DZC is able and willing to accept these additional responsibilities, it is recommended that all IE and FZ regulatory functions be grouped into one operational department within the new merged entity and report to the Minister of Industry and Trade. This will leverage existing institutional knowledge and skills, while ensuring a degree of external oversight. This regulatory department should merge with the DZC or other suitable entity as soon as possible. Whatever form the IE/FZ regulator takes, it may delegate standard regulatory tasks, such as issuing licenses and enterprise inspections, to developers, including the merged entity.

2.0 STRATEGIC ISSUES AND ACTION PLAN FOR MEDIUM-TERM IMPLEMENTATION [6]

A study conducted in 2006 by the predecessor program to SABEQ[7],analyzed available implementation options for the merger of JIEC and FZC. Following discussions of their implications, advantages, and disadvantages with the CEOs of the JIEC and FZC, the Minister of Industry and Trade and the Cabinet, the concensus opinion favored merging the JIEC and the FZC into a public shareholding company under a new law. The new entity's objectives will be to develop, manage, and operate public property in areas designated as IEs or FZs in Jordan.

Pre-requisites to initiating the merger process are obtaining the approval of the Board of Directors of both JIEC and FZC on the strategic direction of the merger, and consequently confirming the support of the Minister of Finance and the Minister of Industry and Trade. Moving forward, once the interested parties have agreed in principle to the broad merger strategy, the merger itself will be carried out in accordance with a two-phase implementation plan as described below. The initial phase – the Transition Phase – is the most important one since it involves the passage of a new law thus making an irreversible change to both corporations.

Phase I — Transition

A 6-month transition period is proposed. The transition phase will start once the Boards of JIEC and FZC, the Minister of Finance, and the Minister of Industry and Trade approve the merger strategic direction and action plan outlined in this report. The primary milestone, which is anticipated to take place within three months of initiating this phase, is to pass a law that extinguishes JIEC and FZC, and establishes the new entity as a public shareholding company. Other preparations for the merger have commenced. An inventory and valuation exercise is complete and human resources planning is starting, taking into consideration analyses initiated under the AMIR program – see the Annex to this report on Human Resources. The boards shall discuss with shareholders the valuation of shares in the existing entities and agree on the contribution to shares in the new entity. Regulatory functions will be identified and transferred to a new division within the new entity. The new entity – the JIEFZC - will be operational, as a single entity, by the end of this phase— in six months from initiating the merger process. The transition phase action items and their respective timeframes and responsibilities are detailed in the following chapter. Timing of this phase and subsequent ones depend on passing the law within the expected timeframe of six months.

Phase II — Operation

The transition phase will be followed by the operation phase in which the new merged entity will carry out the former JIEC's and FZC's operational functions and their regulatory activities. JIEFZC's main objective, during this phase, will be to efficiently manage its property portfolio and effectively market the property to investors in industrial and commercial sectors. In addition, and in cooperation with the Executive Privatization Commission, preparatory work to privatize property development, management, and operation will be undertaken throughout this phase.

[6] Adapted from AMIR Merger Report, 2006

[7] AMIR Program Merger Report, 2006

This will include the development of transparent criteria for decisions on new products and properties to be made available to the marketplace, and the formation of strong market linkages with the owners and operators of existing industrial estates and free zones in Jordan and the region in preparation for upcoming privatization or outsourcing transactions.

JIEFZC shares, assets or operational concessions may then be offered to the private sector in accordance with the best interests of the GoJ.

2.1 STRATEGIC ISSUES

Legal/Regulatory Considerations

A new law should be drafted and enacted which will repeal the existing JIEC and FZC Laws and their implementing regulations. The law will state the new entity's objectives, powers and authorities, legal structure, Board structure and functions, CEO appointment process and his/her responsibilities, accounts auditing processes, and other provisions. The new law should also state that there will be a 6-month transition period before the new entity is operational, and that any agreements made by the previous entities, including agreements in the process of being negotiated or renewed, will be honored and remain in force. The law will also pave the way for the privatization of the new entity in due course should this remain the wish of the GoJ, through specific provisions that separate the regulatory and operational aspects of JIEFZC's mandate, and that dictate the future home for such activities in the event that any new private ownership is introduced into the corporation. Implementing regulations should be drafted covering personnel, financial, administrative, and procurement issues.

Financial Considerations

Of primary concern in any financial transaction that will accompany the merger is that the financial interests of the private sector shareholders in JIEC are protected. The merger is essentially being carried out by the GoJ for the national interest, and any resulting financial damage that may arise to private shareholders of JIEC may be considered to be an expropriation of private property. While there are legal remedies against such damage under the Investment Law of 2003 and the Civil Code in Jordan, the simplest arrangement for moving forward is that safeguards are built into the law creating JIEFZC that assure private shareholders that their interests will be protected.

An alternative here would be that the GOJ buys back the privately held shares in the JIEC, and this could be offered as an option (but not a requirement) to the private shareholders. The advantage of keeping private shareholders in the new corporation is that it provides a precedent for future expanded private ownership.

In addition to the normal safeguards in any merger, the following financial principles should be part of the merger process:

- The value and extent of shareholding in the new entity by the previous owners of JIEC and FZC has been determined through a valuation exercise of the two corporations by Abu Ghazaleh.
- The new entity should be subject to audit under the Companies Law, not the GoJ Audit Bureau.

- The Memoranda and Articles of Association of the new corporation should contain a provision that the dividend policy of the new corporation going forward should be such that its operation as a solvent property company is not compromised.
- The revenues and expenses arising directly from non-operational and regulatory activities shall be accounted for separately as part of the annual accounts of the corporation. This will facilitate separation of these activities in the future if required.

Customs Control Issues

A seamless transition needs to be assured in terms of customs-related functions and policies. The Customs Department will control all gates of all operational FZs in Jordan. The same customs control processes need to be applied for public and private FZs as is the case at present. Physically separating designated areas as IEs from FZs is necessary to avoid flaws in implementing trade agreements and also to maintain physical control by the Customs Department within FZs.

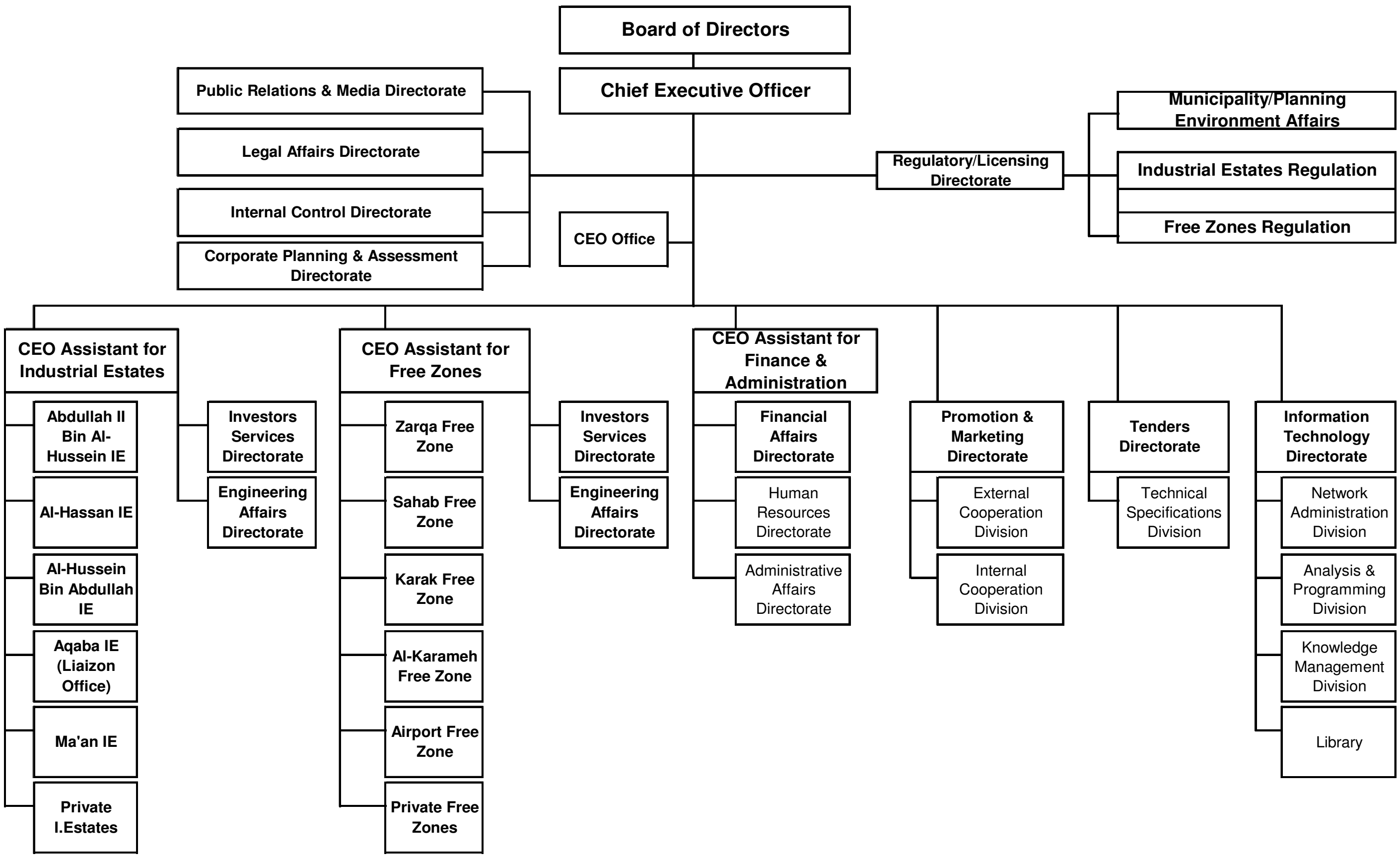
Organizational Structure

A proposed organizational structure for the merged entity is presented below. The main considerations in developing this structure were eliminating redundancies, introducing a span of control that is appropriate to an entity that may eventually be marketed to the private sector, and separating regulatory functions from operational roles.

As illustrated below, the following are the main aspects of the proposed organizational structure that differentiate it from the structures of the JIEC and FZC:

- Creating a Regulatory/Licensing Directorate to be responsible for municipal activities, regulatory planning issues, and environmental protection. It will also be responsible for IEs regulatory issues including fiscal incentives, and FZs regulatory issues including coordination on customs-related functions;
- Combining the operations of IEs and FZs under an Assistant CEO for Property Management;
- Having an Environment and Public Safety Directorate that is responsible for operational issues to operate under the Assistant CEO for Property Management; and
- Maintaining administrative, investment facilitation and follow-up, accounting, maintenance, and water treatment and laboratory staff within each FZ and IE, as needed.

PROPOSED ORGANIZATIONAL STRUCTURE


Board of Directors
Chief Executive Officer
Public Relations & Media Directorate
Legal Affairs Directorate
Internal Control Directorate
Corporate Planning & Assessment Directorate
CEO Office
Regulatory/Licensing Directorate
Municipality/Planning Environment Affairs
Industrial Estates Regulation
Free Zones Regulation
CEO Assistant for Industrial Estates
Abdullah II Bin Al-Hussein IE
Al-Hassan IE
Al-Hussein Bin Abdullah IE
Aqaba IE (Liaizon Office)
Ma'an IE
Private I.Estates
Investors Services Directorate
Engineering Affairs Directorate
CEO Assistant for Free Zones
Zarqa Free Zone
Sahab Free Zone
Karak Free Zone
Al-Karameh Free Zone
Airport Free Zone
Private Free Zones
Investors Services Directorate
Engineering Affairs Directorate
CEO Assistant for Finance & Administration
Financial Affairs Directorate
Human Resources Directorate
Administrative Affairs Directorate
Promotion & Marketing Directorate
External Cooperation Division
Internal Cooperation Division
Tenders Directorate
Technical Specifications Division
Information Technology Directorate
Network Administration Division
Analysis & Programming Division
Knowledge Management Division
Library

2.2 ACTION PLAN FOR IMPLEMENTING THE TRANSITION PHASE

As mentioned in the previous chapter, the implementation plan of the merger will be executed in two initial phases— transition and operation - and eventually privatization. In this chapter, we highlight the main action items that must be completed in the 6-month transition phase, and we present a timeline for implementation— in weeks. The transition phase action items are divided into six main sections as follows:

- Legal and regulatory issues;
- Management issues;
- Personnel issues;
- Investment promotion/marketing issues;
- Financial issues; and
- Public relations and awareness issues.

We propose drafting and ratifying the needed legal documents during this phase and in parallel to other preparatory activities in order to have an operational JIEFZC in the shortest period possible.

The management of the JIEC and the FZC will implement the action items prior to publishing the JIEFZC Law in the official gazette, and the management of the JIEFZC will do so after the law is enacted. Other departments of the GoJ will also be part of the implementation process throughout the transition phase, as detailed in the plan below, such as the Legislative Bureau and the Customs Department.

Legal and Regulatory Issues

The main milestone under the legal and regulatory section is passing the law, which we anticipate to take place by week 13. This is a prerequisite to several action items within all six sections of the transition plan. Delays in passing the law will affect the timeline of implementation. During this phase, any existing agreements and/or MoUs with Government departments will be revised, drafted, and signed as needed. While a timely implementation of all of these action items is necessary for a smooth merger, special attention should be given to the relationship with the Customs Department to assure a seamless transition. The JIEFZC, as the legal successor to the JIEC and FZC, will automatically take over the existing contracts with the FZ and IE tenants. The JIEFZC will ensure that the existing tenants are informed about their new partner, the JIEFZC, and that these contracts are followed up and amended in due course, e.g., at the time of contract renewal. During this transition phase, these contracts must be catalogued. The new law and its implementing regulations will have to take into account the existing large customer base and possible legal implications that may affect these customers in the future. The legal and regulatory action items are expected to take place from week 1 to week 14 of the transition phase.

Management Issues

The main activity under the management issues section is forming the Board of Directors immediately after the law is passed. The Board should include private sector representatives, and will be chaired by the Minister of Industry and Trade, as is the case with the JIEC Board at present. This is a prerequisite for all other management milestones such as appointing the CEO and adopting a three-year corporate strategic plan. The management of the JIEC and the FZC will undertake preparatory work on the proposed organizational structure at an early stage of the transition phase as it does not depend on any legal prerequisite. We anticipate that the senior management team will be in place by week 17 of the transition phase. The CEO and his senior management team will visit relevant departments at the GoJ to present the JIEFZC, its objectives and goals, and coordination issues with these departments. A three-year JIEFZC strategic plan will be presented to the Board for their approval by week 8. The implementation of the management-related activities will begin on week 2 and end on week 19 of the transition phase.

Personnel Issues

The management of the JIEC and the FZC will be dealing with the most sensitive issues of the merger under this section. The main issues in this regard are identified in a separate report by an AMIR Program human resources consultant *(see Annex to this report on Human Resources)*, and they primarily concern the migration of some portion of the GoJ employees, who were employed under the Civil Service By-law and the Social Security Law (formerly FZC employees), and their historical and Council of Ministers approved benefits to the new entity. The issue is not as difficult in the case of JIEC former employees, since the new entity will closely resemble JIEC in that respect. The management of the JIEC and the FZC need to agree on a high-level strategy on the personnel issues at an early stage after examining legal, financial, and social/political consequences. The strategy will take into account factors such as early retirement, likely resignations, financial compensation to staff who will not be redeployed, probation/evaluation period for staff before a final redeployment is completed, and redeployment of staff in other GoJ departments, e.g. some of FZC staff may be redeployed at the Customs Department.

A preliminary organizational audit and comprehensive diagnostic of JIEC and FZC in the context of the merger will be undertaken near the beginning of the process. The results of this assignment will feed into the change management and organizational development projects as a documentation of the status quo of both entities. These will identify job titles, specifications, and descriptions, developing key performance indicators and agreeing on a salary scale and job grading, which will be part of the personnel instruction. The management of the JIEC and the FZC, supported by independent consultants, will interview staff and make decisions on redeployment. Once the law is passed, new letters of appointment will need to be issued and signed for the retained staff. The JIEC and the FZC management, in coordination with relevant departments at the GoJ, will decide on staff compensation issues and procedures. All these action items have to be implemented in a well-phased timeline as detailed in the plan below. In addition to human resources management aspects, the JIEFZC management must address human resource development issues. An annual training plan will be developed and approved by week 24 of the transition phase. Implementation of the training plan will start immediately after the plan approval. The personnel-related action items will start on week 4 and will run through the end of the transition plan.

Investment Promotion/Marketing Issues

One of the primary reasons for the merger is to allow efficiencies of scale and the diversity of products to improve the efficiencies in operating and marketing the IEs and FZs. The combined portfolio provides challenges and opportunities that did not exist previously. In order to address these it will be necessary to develop a new three-year marketing plan that will be adopted by week 17. This is the main milestone of the investment promotion/marketing section of the transition phase. Prior to drafting the plan, the marketing teams at the JIEC and the FZC will jointly review their existing plans, and undertake a comprehensive revised industry analysis effort taking into account the new opportunities that could arise from the joint operation and marketing of their property and incentive products. Each team will look at how they can leverage new activities from the existing activities of the other. Shared client lists and marketing leads will be tapped for greater efficiency, identify promising sources of investment, and project demand for the coming 10 years. Other research activities to examine marketing techniques and tools will also take place before a marketing plan is drafted. Coordination with the JIB and the privately-managed IEs and FZs will be a continuous activity throughout the transition phase and afterwards. The new approach will be branded to give the IEs and FZs a new image and approach consistent with newer market trends in integration between logistics and manufacturing. Implementing marketing-related action items will start on week 3 and will last until the end of the transition phase on week 26.

Public Relations and Awareness Issues

The JIEC and the FZC public relations and media teams will develop a public awareness campaign to accompany the merger deal. The campaign will be launched upon passing the law, and will aim at raising public awareness of the merger and eliminating any confusion that may be associated with this change. The merger is a good opportunity to re-brand the JIEC/FZC and to present a 'new' JIEFZC shortly after the official establishment of the institution. The new brand will be launched on week 16. This brand will reach out to the general public, and will also be focused on potential clients and private sector partners, and the JIB. These activities will be carried out from week 3 to 20 of the transition phase.

Financial issues

The immediate challenge that faces both JIEC and FZC from a financial perspective is the reorganization of their accounts to allow revenues arising from regulatory (non-commercial) activities to be treated separately in preparation for the amalgamation of both institutions' property portfolios. This reorganization will also reveal the true financial strength of the property portfolio and the sustainability of the regulatory regime from a financial (as opposed to economic) perspective. It is recommended that any revisions or new software under consideration for existing IT or database programs for either JIEC or FZC be delayed until the new organizational structure and functions of the merged organization be come clearer.

It is clear from the existing accounts that the JIEC property portfolio performs adequately, and the FZC portfolio performs well, from a strictly financial perspective. The combined portfolio is sustainable, and the rationalized accounts will help the new entity in making commercially sound development decisions in the future.

A valuation of the assets of both institutions has been performed allowing allocation of JIEFZC shares to the existing owners of JIEC and FZC. It is necessary to ensure that valuations have been based on the property related profits arising directly from the assets (as opposed to the application or regulation of the policy regime, which may eventually migrate to other GoJ offices). The Law and Regulations will transfer the assets to the new entity, but soon thereafter JIEFZC will need to have its own combined asset register. This can be achieved toward the end of the Transition Phase. Finally, when the assets have been transferred to the new entity, and the new accounting methods are in operation, the JIEFZC should be revalued in its entirety, taking its separate operational and regulatory roles into account. This will give the shareholders a benchmark from which to measure future progress in terms of the value of their shareholdings.

ACTION PLAN
FOR TRANSITION PHASE IMPLEMENTATION

ACTION ITEM NO	ACTION ITEM DESCRIPTION	MAIN RESPONSIBILITY	WEEK 1	WEEK 2	WEEK 3	WEEK 4	WEEK 5	WEEK 6	WEEK 7	WEEK 8	WEEK 9	WEEK 10	WEEK 11	WEEK 12	WEEK 13	WEEK 14	WEEK 15	WEEK 16	WEEK 17	WEEK 18	WEEK 19	WEEK 20	WEEK 21	WEEK 22	WEEK 23	WEEK 24	WEEK 25
LEGAL AND REGULATORY ISSUES																											
1	DRAFT LAW	JIEC/FZC																									
2	PRESENT LAW TO BOARDS	CEO/DG																									
3	PRESENT LAW TO COUNCIL OF MINISTERS	M/MIT																									
4	REVISE AND APPROVE LAW	LEG. B.																									
5	APPROVE /ENDORSE LAW	PARLIAMENT																									
6	ISSUE ROYAL DECREE	ROYAL COURT																									

ACTION PLAN
FOR TRANSITION PHASE IMPLEMENTATION

ACTION ITEM NO	ACTION ITEM DESCRIPTION	MAIN RESPONSIBILITY	WEEK 1	WEEK 2	WEEK 3	WEEK 4	WEEK 5	WEEK 6	WEEK 7	WEEK 8	WEEK 9	WEEK 10	WEEK 11	WEEK 12	WEEK 13	WEEK 14	WEEK 15	WEEK 16	WEEK 17	WEEK 18	WEEK 19	WEEK 20	WEEK 21	WEEK 22	WEEK 23	WEEK 24	WEEK 25
7	**PUBLISH LAW IN OFFICIAL GAZETTE**	**GOJ**																									
8	**REPEAL EXISTING JIEC & FZC LAWS**	**GOJ**																									
9	**PREPARATORY WORK TO REVISING CONTRACTS WITH EXISTING TENANTS**	**JIEC/FZC**																									
10	**REVISE/DRAFT AGREEMENTS AND/OR MOUS WITH GOVERNMENT DEPTS- AS NEEDED**	**JIEC/FZC / GOV'T DEPT.S**																									

ACTION PLAN
FOR TRANSITION PHASE IMPLEMENTATION

ACTION ITEM NO	ACTION ITEM DESCRIPTION	MAIN RESPONSIBILITY	WEEK 1	WEEK 2	WEEK 3	WEEK 4	WEEK 5	WEEK 6	WEEK 7	WEEK 8	WEEK 9	WEEK 10	WEEK 11	WEEK 12	WEEK 13	WEEK 14	WEEK 15	WEEK 16	WEEK 17	WEEK 18	WEEK 19	WEEK 20	WEEK 21	WEEK 22	WEEK 23	WEEK 24	WEEK 25
11	SIGN AGREEMENTS AND/OR MOUS WITH GOVERNMENT DEPARTMENTS- AS NEEDED	JIEFZC/ GOV'T DEPT.S																									
MANAGEMENT ISSUES																											
12	FORM BOARD	COUNCIL OF MINISTERS																									
13	APPOINT CEO	BOARD																									
14	PREPARATORY WORK ON ORG STRUCTURE	JIEC/FZC																									
15	APPROVE ORG STRUCTURE	BOARD																									

ACTION PLAN
FOR TRANSITION PHASE IMPLEMENTATION

ACTION ITEM NO	ACTION ITEM DESCRIPTION	MAIN RESPONSIBILITY	WEEK 1	WEEK 2	WEEK 3	WEEK 4	WEEK 5	WEEK 6	WEEK 7	WEEK 8	WEEK 9	WEEK 10	WEEK 11	WEEK 12	WEEK 13	WEEK 14	WEEK 15	WEEK 16	WEEK 17	WEEK 18	WEEK 19	WEEK 20	WEEK 21	WEEK 22	WEEK 23	WEEK 24	WEEK 25
16	APPOINT SENIOR MANAGEMENT	CEO																									
17	DRAFT A 3-YEAR CORPORATE PLAN	CEO/SENIOR MGT																									
18	APPROVE CORPORATE PLAN	BOARD																									
19	PRESENT JIEFZC TO RELEVANT GOJ DEPARTMENTS	CEO/SENIOR MGT																									
PERSONNEL ISSUES																											
20	IDENTIFY JOB TITLES	JIEC/FZC																									

ACTION PLAN
FOR TRANSITION PHASE IMPLEMENTATION

ACTION ITEM NO	ACTION ITEM DESCRIPTION	MAIN RESPONSIBILITY	WEEK 1	WEEK 2	WEEK 3	WEEK 4	WEEK 5	WEEK 6	WEEK 7	WEEK 8	WEEK 9	WEEK 10	WEEK 11	WEEK 12	WEEK 13	WEEK 14	WEEK 15	WEEK 16	WEEK 17	WEEK 18	WEEK 19	WEEK 20	WEEK 21	WEEK 22	WEEK 23	WEEK 24	WEEK 25
21	DEVELOP/REVISE JOB SPECIFICATIONS AND DESCRIPTIONS AND KEY PERFORMANCE INDICATORS	JIEC/FZC																									
22	INTERVIEW STAFF																										
23	REDEPLOY STAFF & ISSUE NEW LETTERS OF APPOINTMENT	JIEFZC HR DEPT																									
24	DEVELOP SALARY SCALE AND JOB GRADING																										

ACTION PLAN
FOR TRANSITION PHASE IMPLEMENTATION

ACTION ITEM NO	ACTION ITEM DESCRIPTION	MAIN RESPONSIBILITY	WEEK 1	WEEK 2	WEEK 3	WEEK 4	WEEK 5	WEEK 6	WEEK 7	WEEK 8	WEEK 9	WEEK 10	WEEK 11	WEEK 12	WEEK 13	WEEK 14	WEEK 15	WEEK 16	WEEK 17	WEEK 18	WEEK 19	WEEK 20	WEEK 21	WEEK 22	WEEK 23	WEEK 24	WEEK 25
25	DECIDE ON STAFF COMPENSATION (NOT REDEPLOYED)	JIEC/FZC / GOJ																									
26	DRAFT AN ANNUAL TRAINING PLAN	JIEFZC HR DEPT																									
27	APPROVE TRAINING PLAN	SENIOR MGT																									
28	INITIATE TRAINING PLAN IMPLEMENTATION	JIEFZC HR DEPT																									

INVESTMENT PROMOTION/MARKETING ISSUES

ACTION PLAN
FOR TRANSITION PHASE IMPLEMENTATION

ACTION ITEM NO	ACTION ITEM DESCRIPTION	MAIN RESPONSIBILITY	WEEK 1	WEEK 2	WEEK 3	WEEK 4	WEEK 5	WEEK 6	WEEK 7	WEEK 8	WEEK 9	WEEK 10	WEEK 11	WEEK 12	WEEK 13	WEEK 14	WEEK 15	WEEK 16	WEEK 17	WEEK 18	WEEK 19	WEEK 20	WEEK 21	WEEK 22	WEEK 23	WEEK 24	WEEK 25
29	REVIEW EXISTING JIEC AND FZC MARKETING PLANS	JIEC/FZC MARKETING TEAMS																									
30	ANALYZE INDUSTRY / COMMERCIAL SECTORS, INVESTMENT SOURCES, POTENTIAL DEMAND	JIEC/FZC MARKETING TEAMS																									
31	UNDERTAKE PREPARATORY WORK FOR DEVELOPING A MARKETING PLAN	JIEC/FZC MARKETING TEAMS																									
32	DRAFT A THREE-YEAR MARKETING PLAN	JIEFZC MARKETING DEPT																									

ACTION PLAN FOR TRANSITION PHASE IMPLEMENTATION																											
ACTION ITEM NO	ACTION ITEM DESCRIPTION	MAIN RESPONSIBILITY	WEEK 1	WEEK 2	WEEK 3	WEEK 4	WEEK 5	WEEK 6	WEEK 7	WEEK 8	WEEK 9	WEEK 10	WEEK 11	WEEK 12	WEEK 13	WEEK 14	WEEK 15	WEEK 16	WEEK 17	WEEK 18	WEEK 19	WEEK 20	WEEK 21	WEEK 22	WEEK 23	WEEK 24	WEEK 25
33	APPROVE MARKETING PLAN	CEO																									
34	PRESENT PLAN TO ALL JIEFZC STAFF	JIEFZC MARKETING DEPT																									
35	COORDINATE ACTIVITIES WITH JIB	JIEFZC MARKETING DEPT																									
36	COORDINATE ACTIVITIES WITH PRIVATE IES AND FZS	JIEFZC MARKETING DEPT																									
37	INITIATE MARKETING PLAN IMPLEMENTATION	JIEFZC MARKETING DEPT																									
PUBLIC RELATIONS AND AWARENESS ISSUES																											

ACTION PLAN FOR TRANSITION PHASE IMPLEMENTATION																											
ACTION ITEM NO	ACTION ITEM DESCRIPTION	MAIN RESPONSIBILITY	WEEK 1	WEEK 2	WEEK 3	WEEK 4	WEEK 5	WEEK 6	WEEK 7	WEEK 8	WEEK 9	WEEK 10	WEEK 11	WEEK 12	WEEK 13	WEEK 14	WEEK 15	WEEK 16	WEEK 17	WEEK 18	WEEK 19	WEEK 20	WEEK 21	WEEK 22	WEEK 23	WEEK 24	WEEK 25
38	**PREPARE FOR BRANDING JIEFZC**	**JIEC/FZC PR/MEDIA/ MARKETING**																									
39	**DEVELOP A PUBLIC AWARENESS MEDIA STRATEGY FOR THE MERGER**	**JIEC/FZC / JIEFZC PR/MEDIA**																									
40	**PREPARE FOR LAUNCHING NEW BRAND**	**JIEFZC PR/MEDIA**																									
41	**LAUNCH NEW BRAND- JIEFZC**	**JIEFZC PR/MEDIA**																									
42	**INITIATE PR/MEDIA ACTIVITIES**	**JIEFZC PR/MEDIA**																									

ACTION PLAN
FOR TRANSITION PHASE IMPLEMENTATION

ACTION ITEM NO	ACTION ITEM DESCRIPTION	MAIN RESPONSIBILITY	WEEK 1	WEEK 2	WEEK 3	WEEK 4	WEEK 5	WEEK 6	WEEK 7	WEEK 8	WEEK 9	WEEK 10	WEEK 11	WEEK 12	WEEK 13	WEEK 14	WEEK 15	WEEK 16	WEEK 17	WEEK 18	WEEK 19	WEEK 20	WEEK 21	WEEK 22	WEEK 23	WEEK 24	WEEK 25
FINANCIAL ISSUES																											
43	REVISE JIEC AND FZC COST CENTER ACCOUNTING.	JIEC/FZC																									
44	AGREE SHARE VALUATION OF JIEC AND CONTRIBUTION TO NEW ENTITY.	JIEC/FZC																									
45	TRANSFER ASSETS TO NEW ENTITY	JIEC/FZC																									
46	PREPARE COMBINED AND REVISED ASSET REGISTER.	JIEFZC																									

ACTION PLAN
FOR TRANSITION PHASE IMPLEMENTATION

ACTION ITEM NO	ACTION ITEM DESCRIPTION	MAIN RESPONSIBILITY	WEEK 1	WEEK 2	WEEK 3	WEEK 4	WEEK 5	WEEK 6	WEEK 7	WEEK 8	WEEK 9	WEEK 10	WEEK 11	WEEK 12	WEEK 13	WEEK 14	WEEK 15	WEEK 16	WEEK 17	WEEK 18	WEEK 19	WEEK 20	WEEK 21	WEEK 22	WEEK 23	WEEK 24	WEEK 25
47	APPOINT AUDITORS.	JIEFZC																									
48	REVALUE NEW ENTITY	JIEFZC																									
49																											
50																											

3.0 REFORMING ESTATE AND FREE ZONE FISCAL INCENTIVES IN THE MEDIUM TO LONG-TERM

In early 2008, the Government enacted the Development Areas Law (No. 2) for the Year 2008 which effectively extends the customs duties exemptions and five percent rate of income tax of the Aqaba Special Economic Zone (ASEZ) to other economic zones to be created and regulated by a new zones regulatory entity, the Development Zones Commission (DZC). At least four large development areas under this Law are already planned in Jordan with the potential to significantly expand the number of enterprises subject to the preferential ASEZ regime. The DZC and ASEZ regimes facilitate export-led growth of manufactures and services, including tourism and transit trade. Free zones facilitate transit trade and, increasingly, export manufacturing. Sales from either type of zone into the rest of Jordan are subject to the prevailing rates of income tax and customs duty. Without a local population to support consumption of goods and services produced locally within a development area, the areas become an elaborate exercise in local administrative reform to support exports. DZC staff are investigating specialized export-oriented zones in fields such as tourism and business process outsourcing.

For the time being service or manufacturing exporters, regardless of where they are located within Jordan, remain exempt from income tax under the current Income Tax Law[8]. Jordan is one of 19 small developing countries that have been permitted by WTO members to continuing offering fiscal incentives to exporters – prohibited under the WTO Subsidies and Countervailing Measures Agreement – until 2015. The DZC Law permits investors locating within development zones to enjoy the export earnings exemption.

Table 1. Summary of Current Jordanian Investment Incentives

Regime	Manufacturing	Services	Agriculture
Prevailing Income Tax Law	15%	25%	0% (check this)
Export earnings	0% until 2015	0% until 2015	0% until 2015
Sales within or exported from Free Zones	0% - significant fees apply	0% - significant fees apply	NA
Industrial estate domestic or export sales	2-year exemption	2-year exemption	NA
Investment Promotion Law 10-years: 3.75% in Zone C 7.5% or 11.25% elsewhere	Applies to all mining and manufacturing on domestic and export earnings	Applies only to hotels and hospitals. Leisure and Convention centers offered 18.75% in Zone A	All Agriculture on domestic and export earnings
ASEZ domestic and export sales	5%	5%	5%
Sales within/between Dev Areas	5%	5%	5%
Dev Area export sales	0% until 2015	0% until 2015	0% until 2015

The DZC Law also permits free zones to be established within development areas offering all free zone incentives to enterprises locating therein. Since export earnings are already exempt from income tax until 2015, the additional benefits of locating in a free zone include exemption from property taxes and exemption of foreign workers from personal income tax. The duty-free environment of free zones is of little benefit to development area enterprises since the DZC Law also exempts all registered enterprises from customs duties and sales tax.[9] The DZC Law also exempts the earnings of transit traders using public warehouses or

[8] Check that exemption covers both manufacturing and service export income.

[9] A preferable situation is for the DZC to designate an area within a development area to be duty-free. This permits a hybrid estate/zone arrangement where manufacturers serving the domestic market or wanting to export under a trade agreement prohibiting duty preferences can locate while still enjoying DZC investor services.

free zones within development areas.[10] These additional features provide development areas with an ASEZ "plus" fiscal regime, i.e. the most attractive possible fiscal environment for exporters while still appearing to collect some revenue in the long term.

For businesses serving the domestic Jordanian market, incentives are available under the Investment Promotion Law of 1995 (IPL) essentially for agriculture, mining, manufacturing, hotels, hospitals and marine and rail transport. The IPL provides a ten-year 75% reduction in the income tax rate for eligible sectors in parts of Jordan outside the main population centers – representing about 80% of total land area. For example, an eligible manufacturer in Ma'an could enjoy 75% of the prevailing 15% rate of income tax, or 3.75%. The IPL also provides for a 25% and 50% reduction in prevailing income tax rates for eligible sectors in other parts of the country. The IPL also provides duty exemptions for capital equipment and spare parts. An important disadvantage of the IPL incentives is the lack of loss carry forward, so manufacturers incurring operational losses during their first few years cannot take advantage of their lower rate of income tax.

The JIEC provides a two year income tax holiday to investors located in any of its industrial estates, in addition to the IPL incentives. The lack of loss carry forward under the IPL regime has encouraged manufacturers in estates to use the ten-year IPL preferences first and then apply the JIEC two year total tax holiday. Free zones and the JIEC also exempt locators from property taxes unlike investors in development areas or outside of zones and estates subject only to the IPL regime. Chen et al find that the property tax exemption provided by the JIEC decreases the METR by four percentage points for manufacturers already enjoying the JIEC/IPL incentives. The Development Areas Law does not exempt registered enterprises from property taxes. The Law instead relies on property tax exemptions and personal income tax exemptions of foreign workers provided under the free zone law as noted above. Nor does the JIEC provide personal income tax exemptions for foreign workers. If all export manufacturing relocates to free zones under the current set of free zone incentives, whether in development areas or elsewhere, then the national economic benefit from manufacturers relying on foreign labor is minimized.

Table 2: Applicable Income Tax Rates and IPL/JIEC Investment Incentives

<table>
<tr><th>Sector</th><th>Tax Rate Without Incentives or After Incentives Expire</th><th colspan="6">Tax Rates in Incentive Zones</th></tr>
<tr><th></th><th></th><th>A</th><th>B</th><th>C</th><th colspan="3">Industrial Estates</th></tr>
<tr><td>Banks and Financial Companies, excluding Insurance</td><td>35%</td><td>N/A</td><td>N/A</td><td>N/A</td><td colspan="3">N/A</td></tr>
<tr><td rowspan="3">Industry including Mining and Manufacturing</td><td rowspan="3">15%</td><td rowspan="3">11.25% for 10 years</td><td rowspan="3">7.50% for 10 years</td><td rowspan="3">3.75% for 10 years</td><td colspan="3">Zero for 2 years+</td></tr>
<tr><td>A</td><td>B</td><td>C</td></tr>
<tr><td>11.25% for 10 yrs</td><td>7.50% for 10 yrs</td><td>3.75% for 10 yrs</td></tr>
<tr><td>Hotels and Hospitals</td><td>15%</td><td>11.25% for 10 years</td><td>7.50% for 10 years</td><td>3.75% for 10 years</td><td colspan="3">N/A</td></tr>
<tr><td>Maritime Transport & Railways (MTR)</td><td>15%</td><td>N/A</td><td>N/A</td><td>3.75% for 10 years</td><td colspan="3">Zero for 2 years + 3.75% for 10 yrs</td></tr>
<tr><td>Construction, Electricity & Gas, Transportation excluding MTR</td><td>15%</td><td>N/A</td><td>N/A</td><td>N/A</td><td colspan="3">N/A</td></tr>
<tr><td>Leisure and Recreational Compound (LARC)</td><td>25%</td><td>18.75% for 10+ years</td><td>N/A</td><td>N/A</td><td colspan="3">N/A</td></tr>
</table>

[10] The GoJ should carefully balance the national benefits of warehousing fees and domestic transport company earnings against foregone tax revenue and road maintenance and congestion costs particularly if more foreign trucking firms carry transit trade.

Conventions and Exhibition Centers (CAEC)	25%	18.75% for 10+ years	N/A	N/A	N/A
Transporting & Distributing Water, Gas & Oil (TDWGO)	25%	Defined on a case-by-case basis			N/A
Other sectors not listed above	25%	N/A	N/A	N/A	N/A

Source: Income Tax Law of 1985 and IPL 1995 (and its amendments).
Notes: "Other sectors not listed above" include insurance, exchange companies and intermediation, communications, services, and commercial companies.

Do the JIEC/IPL incentives attract domestic manufacturers into industrial estates? In general, even a 3.75% income tax rate has not attracted manufacturing to the more remote Zone C estates of Karak and Ma'an – where labor is scarce. Tenants in the near capacity estates of Al-Tajamouat and King Abdullah II estates in Zone A may be eligible for the IPL 11.25% preferential rate of income tax, while tenants in Al Hassan estate may be eligible for the Zone B 7.5% rate.

3.1 PROPOSED FISCAL REFORM OPTIONS

1. *Harmonize with Development Areas Regime* - Replace current free zone and estate incentives with the Development Area five percent income tax rate: sales within estates and zones subject to 5% income tax, all exporters exempt from income tax until 2015 and thereafter either subject to 5% income tax. All sales into customs territory subject to prevailing income tax law rates.
2. *Status Quo* - Continue current free zone and estate treatment: traders and producers in free zones are exempt on all sales except those into the customs territory of Jordan, producers serving the domestic market in industrial estates may be eligible for JIEC two year holiday and IPL benefits on all sales for up to ten years, all exporters remain exempt from income tax until 2015.
3. *Harmonize and Reform* – Adopt development areas treatment of exporters, transit traders and sales within estates and zones, i.e. exporters are exempt until 2015 then subject to 5% income tax. IPL and JIEC tax holidays are replaced with an income tax treatment that removes the bias favoring manufacturing over services. Given the reluctance of Jordanian manufacturers to increase their statutory rate of income tax from either 11.25% or 15% to the 20% proposed in the draft Tax Code, an alternative is to apply the same 15% rate to both manufacturing and services undertaken in estates and zones and sold into the domestic customs territory. Furthermore, as recommended by Chen et al customs duties on all machinery and equipment including spare parts should be eliminated. Remaining tax measures could be as provided in the draft Tax Code, i.e. five year loss carry forward, new depreciation rates, 10% withholding tax on Jordanian source investment income paid to resident and non-resident natural and legal persons, etc.[11] Further analysis should be undertaken to model the revenue and METR effects of these measures – the JIEC and FZC need to be able to promote the new regime by comparing METRs across sectors and across competing countries. The net result will be an increase in the current METR on manufacturers and a decrease in the METR on service providers. Further analysis is also needed to carefully consider the appropriateness of property tax and non-Jordanian personal income tax exemptions in estates and/or free zones.[12] These appear to be fiscally expensive and are encouraging industry to relocate to free zones. Further analysis may suggest they be discontinued.

[11] Note that dividends earned by legal persons are not assessable in the draft Tax Code – see article 226 (1)(a).

[12] Chen et al note the property "tax base in Jordan may differ significantly between owner-occupied buildings and those on the rental market, owing to Jordan's out of date property evaluation for owner-occupied buildings", page 23.

3.2 DISCUSSION OF REFORM OPTIONS

All Jordan's investment incentive regimes should align themselves as much as possible. Overlapping regimes creates confusion, administrative and compliance costs, and opportunities for income tax evasion. Given that the ASEZ model has been adopted and extended to potentially apply in any development area throughout Jordan, then the JIEC and FZC have little choice but to follow suit with respect to earnings derived from exports and sales within estates and zones.

A major question is what happens after 2015 to the tax treatment of export earnings. Assuming no further fiscal preferences on export earnings are permitted by WTO members, then WTO members expect the prevailing national income tax rate to apply to any export earnings, no matter where the exporter is located within Jordan. If the prevailing income tax rate is 15% but development areas are offering exporters 5% then naturally exporters will relocate to or seek designation as a development area.[13] However, a special estate or zone income tax rate of five percent on exports earnings, if not a prohibited subsidy, is likely an actionable subsidy and could lead other WTO member countries to bring an action on behalf of their adversely affected producers.[14]

The other critical fault with all Jordan's incentive regimes is their reliance on exempting exporters from customs duties. This is contrary to the EU principle that duty preferences upon entry into the EU will not be provided to exports produced in its Euro-Med partners using any form of duty drawback or exemption. Similar principals apply to exports from free zones in the GAFTA and COMESA agreements. If these principals are strictly enforced then all zones and estates in Jordan cannot become havens for exports to the EU and MENA region.[15] The only alternative is to eliminate duties in the customs tariff schedule on inputs into manufacturing and services. Such duties are already very low and are being eliminated if sourced from free trade partners. The Ministry of Industry and Trade and Jordan Customs worked closely to eliminate such duties from inputs into the garment industry – and should do so for all major industries.

Continuing the IPL incentive regime on domestic sales maintains existing distortions against investment in service production and is not necessarily effective in attracting new manufacturing investment. As Chen et al show, the METR actually falls for Zone A manufacturers when their income tax preference is removed, while maintaining zero duties on capital equipment and spare parts (see discussion below).

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[13] The Development Areas Law and its Designation Regulation do not specify criteria that would preclude existing industrial estates seeking development area designation.

[14] A recent ruling by the Canadian Border Services Agency recently held that income tax preferences provided to foreign investment and foreign entities within special economic zones in China by the central government represented an actionable subsidy. The *Laminate Flooring* case is located on the Canadian Border Services Agency website. The link to the statement of reasons is: http://cbsa-asfc.gc.ca/sima-lmsi/i-e/ad1332/ad1332p-eng.html#P394_34682

Any financial benefit provided by the government that is only available to an enterprise, industry, group of enterprises, or group of industries situated in a designated geographic region in the host country is considered a subsidy, under Article 2.2 of the SCM Agreement. As such, it is "**actionable**" under the WTO if the level of exports from the country with the SEZ scheme exceeds the *de minimis* threshold and the complaining country can show that the subsidy has an adverse effect on its interests, i.e. it hurts a domestic industry in the complaining country, or it hurts its exporters in the SEZ host country market third markets. If "actioned" under the WTO Dispute Settlement Body, and the WTO rules that the subsidy has an adverse effect, the subsidy must be withdrawn or its adverse effect must be removed. Otherwise, a countervailing duty may be imposed. No SEZ actionable subsidy cases have however been brought to the WTO Dispute Settlement Panel to date.

[15] Exports to the US under the QIZ arrangement or FTA are not subject to such requirements.

Option Three: Advantages

1. Improves tax efficiency by removing the current distortionary tax bias against investment in services. Earnings from all economic activities should be taxed at the same rate – although definition of assessable income can vary between industries. This could be the single most effective measure to facilitate new investment in business process outsourcing, IT and other key service sectors.

For analytical purposes, Table 4.4 presents a comparison between Jordan and Ireland's tax cost to foreign investors. While Ireland is obviously not a competitor to Jordan, its tax regime is a possible role model.

Table 3: Comparison of METR on FDI Between Jordan and Ireland (%)

	Ireland	Jordan			
		Current Case	Case 1	Case 1A	Case 2
Manufacturing	12.4	7.7	11.6	11.6	10.6
Services	16.6	24.3	17.9	16.7	17.3
Sectoral Gap in METR (% points)	4.2	16.7	6.3	5.2	6.7

Key

Current case	Zone A incentive for manufacturing. No incentive for services.
Case 1	Exempt import duty on M&E for all sectors and eliminate income tax reduction by incentive zone
Case 1A	Apply 15% income tax to all sectors and exempt import duty on M&E for all sectors
Case 2	Case 1, plus 20% investment allowance

2. Tests a flat rate of income tax on all economic activities (except banking and financial services) within zones and estates selling domestically. If successfully accepted by the private sector then the 15% flat rate could be adopted nationally, overcoming the current resistance to a flat rate of 20% corporate income tax.
3. Revenue loss from lowering the tax rate on services is mitigated by eliminating the IPL incentives on hotels and limiting the current levels of loss carry forward and depreciation allowances for both manufacturers and service providers.
4. Investors currently enjoying IPL incentives have to accept that these are finite term incentives – they are intended to end after ten years
5. Duties on capital equipment imports and spare parts are currently zero for most tariff lines, and will soon be zero for all tariff lines under Jordan's trade agreements. So foregone revenue is minimized and publicity maximized by offering zero tariffs on capital imports for the whole country.
6. Eliminating tariffs on capital equipment, etc is the only way to maintain competitiveness for Jordanian manufacturers and service providers while permitting estates and zones to export to the EU and GAFTA members.
7. If and when WTO members no longer permit Jordan to offer prohibited export subsidies, then the measures proposed in this paper for domestic sales can be applied to export earnings.

Option Three: Disadvantages

1. The main disadvantage is potential revenue loss from current taxation on communication and trading services. Further work is necessary to determine the level of potential revenue loss and considering redefining assessable net income for service sectors. Chen et al find that reducing the statutory rate on communication from 25% to 15% only decreases their METR by 1.7 percentage points. A much larger decrease in METR would arise from the elimination of duties on capital equipment imported by communication companies – up to 9 percentage points – but likely to be smaller today since duties have reduced since 2004 when Chen conducted her study.

2. A potential perception of an increase in taxation on manufacturing. However, effective taxation is unlikely to increase because manufacturers will now be able to carry forward their losses. Chen et al estimated that about 30% of Jordanian manufacturers were paying the 11.25% income tax rate. See table 3.1 below – the METR on Zone A manufacturers enjoying IPL benefits outside of industrial estates is 10.7%. By replacing the preferential statutory rate of 11.25% for manufacturers with an income tax rate of 15% but retaining the exemption from capital import duties the resulting METR is 10.5%. This surprising result is because there is no loss carry forward under the IPL incentives, so manufacturers incurring operational losses during their first few years cannot take advantage of their lower rate of income tax.[16]

[16] An important caveat exists here – Chen et al calculated their METRs based on indefinite loss carry forward. The draft tax code limits loss carry forward to five years. All METRs should be recalculated under the five year scenario.

ANNEX ONE - HUMAN RESOURCE CONSIDERATIONS[17]

JIEC is a financial and administrative independent institution with a Board of Directors chaired by Minister of Industry & Trade. The total numbers of staff is (200) and has (4) Industrial Estates in different regions of the country. JIEC is a self-financing entity with a 49% private-sector sharing.

On the other hand, FZC is a governmental institution, applies Governmental Financial by-law, Civil Service by-law, and General Supplies by-law. The total number of staff is (322) and has (5) Free Zones in different regions of the country.

JIEC has implemented several restructuring programs during the years 2003-2004. JIEC developed the Personnel Instructions in 2003 and adapted a new Performance Management System and new Salary Scale. Additionally, JIEC has developed several HRs procedures made them effective since 2003.

Relatively speaking, JIEC operates efficiently and effectively and does not encounter administrative problems that might affect its operations. Whereby, FZC encounters many problems at the HR side such as: low salaries, surplus of manpower, limited budget, and commitment to apply civil service policies and provisions which tighten to a certain extent its ability to take the right decisions in terms of terminating employment contracts, linking annual increment with performance management system, and rewarding competent staff.

A committee from both JIEC and FZC is formed to study the current applications at the administrative domain in order to be prepared for the merge. The Committee discussed in depth each procedure, instruction, by-law applied by JIEC and FZC to come up with a unified document, taking into consideration both: the institution's interest and employees' rights.

On the other axis, an Organizational Structure has been designed taking into account the continual existence of most core functions at both JIEC and FZC, while merging the similar supportive functions. Besides, the new proposed Organizational Structure is designed in a manner that would easily assists in the course of a futuristic decision in terms of transformation into a public share-holding company or a privatized company.

Until end of April, 2006 the attempts to move ahead applying the above activities is On-Hold until the Merging Law of JIEC and FZC is approved by the Cabinet and later by the Parliament. So to speak, everything is pending until writing this report.

IMPLEMENTATION ARRANGEMENTS: PERSONNEL ISSUES

Based on the findings of new Mission Statement, Legal Regulatory issues, and Strategies which will govern the merge decision. The following tasks are deemed necessary for the implementation of the merging process:

01 Contribute in preparing the ***Organization Structure*** to assist in identifying the main functions of organizational units (Corporate and Supportive functions);

02 Define the ***Job Titles*** required to carry out the departmental functions.

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[17] Extract from Muthafar, 2006

03 Conduct a ***Job Analysis*** study per each job title to identify and assess the following issues which is considered as the baseline for preparing the job description and allocating the right salary grading:
   a- Qualification;
   b- Years of Experience;
   c- Level of Responsibility;
   d- Level of Supervision;
   e- Working conditions such as: degree of complexity, difficulty, and risk element, and
   f- Job Specifications (Skills, Competences, Knowledge) required carrying out the tasks and responsibilities.

04 Conduct an ***HR Audit*** of current data about the staff in terms of:
   a- Job Title of all employees;
   b- Number of employees per each job title;
   c- Years of experience;
   d- Qualification (Level and Specialty);
   e- Salary details (basic, allowances, deductions, total, and monthly net salary);
   f- Skill Audit representing the training subjects which the staff had acquired in order to figure out how far the match the job requirements at one side, and to assist in redeployment of workforce according to the new organization structure and job titles at the other.

05 Prepare / Develop ***Job Descriptions*** based on the new departmental functions, job titles, and the findings of the job analysis.

06 Create / Develop ***Key Performance Indicators*** (KPIs) to be included in the job description at one side, and later to be considered in performance evaluation at the other.

07 Design a ***Salary Scale*** and ***Job Grading*** to be included in the Personnel Instructions.

08 Based on the issuance of the ***Personnel Instructions*** after passing all the formal legal channels, produce a ***Comparative Table*** of the workforce that reflects the following issues:
   a- Create new or keeping same or canceling some job titles.
   b- Identify current Total Salary and New Salary; and
   c- Redeploy where is necessary the employees according to the new functions, tasks, and abilities.

09 Carry out an ***Assimilation*** exercise of the staff into the new salary scale and job grading where each employee will be given the following:
   a- The Job Title;
   b- The Category / Grade of the job; and
   c- The additional increase in salary.

10 Conduct a ***Training Needs Analysis*** to identify the skills, competences, knowledge required to carry out the tasks and responsibilities for each job title.

11 Prepare a short and mid-term ***Training Plan*** and ***Training Budget***.

12 Design and conduct an ***Induction Course*** for the entire workforce to understand their rights and obligations according to the Personnel Instructions, Organization Structure, Salary Grading, Job Descriptions, and Training Needs.

13 Review / Develop ***Personnel Procedures*** with required manual / computerized forms to implement the personnel policies.

14 Prepare ***HR Manual*** which will include several systems / instructions such as but not limited to:
   a- Personnel Instructions
   b- Medical Insurance System
   c- Provident Fund System

REASONS / JUSTIFICATIONS BEHIND THE MODIFICATIONS

01 Moving Legal Affairs under Assistant CEO Corporate Services to be situated above the line and directly linked with the CEO. The work load is tremendous and requires direct contact and decisions with the CEO rather than being linked with an intermediate link.

02 Cancel Quality Control under Assistant CEO Corporate Services and substitute by having a Quality Control Officer at each IE or FZ.

03 Keeping Information Technology as an independent directorate and link the Library with it as well as designing Knowledge Management Division due to importance of documenting information.

04 Moving Corporate Planning under Assistant CEO Corporate Services to be above the line and directly linked with the CEO. This will be an important unit due to policy making and strategic planning. It will also be concerned with assessing JIEFZC achievements through follow up and monitoring periodical reporting system to be submitted to the CEO to stand on the status quo of achievements.

05 Due to the above points (1,2,3,4) the post of Assistant CEO Corporate Services is canceled.

06 Moving Engineering & Projects under Assistant CEO Development to be linked with Assistant CEO for Industrial Estates as well as linked with Assistant CEO for Free Zones. The whole work is done at the IEs and FZs and not at the Headquarter at one side, and there is no need to spend time by the two assistants for nothing at the other.

07 Establish a new directorate called Investment Services. Investors at IEs and FZc need to be served directly and nothing is served at the Headquarter. For this reason, Investors Services is linked with Assistant for IEs as well as with Assistant CEO for FZs.

08 Investment Promotion & Marketing is left independent.

09 Moving Contracts under Assistant CEO Development to be linked with Assistant CEO for Industrial Estates as well as linked with Assistant CEO for Free Zones. Only one Contracts Officer is sufficient to be employed at each IE and FZ or it could be a division directly linked with Assistant CEO for Industrial Estates as well as linked with Assistant CEO for Free Zones.

10 New Tendering Directorate is established as an independent due to importance and volume of work.

11 Separating the Assistant CEO Property Management into two: Assistant CEO Industrial Estates and Assistant CEO Free Zones. The reason is that no one job holder can enjoy both : the expertise and work knowledge of the two different kinds of work.

OPTIONS OF STAFF MOVEMENT

Based on the following deliverables:

- Organization Chart;
- Departmental Functions;
- Job Analysis;
- Job Description; and
- Skills Audit

The number and quality of staff required for carrying out the tasks and responsibilities will be determined.

It is helpful if the new JIEC-FZC considers all employees on Probation period and transparently address this issue to all staff. After the probation period (3-6) months, employees who perform well will be retained, otherwise, their employment contract has to be terminated and/or adopt an early retirement scheme. This – of course- needs a transparent and objective performance appraisal mechanism managed by a highly sound committee.

Notwithstanding the above comments; the following option (s) can be decided upon by the Top Executive Management of JIEC-FZC:

1- Accept resignation of employees who make the initiative. This -of course- requires calculating any compensation to the employee (s).
2- Re-deploy competent employees on the new organization chart based on their qualification, skills, competence, and knowledge. This will result in either keeping the employee in his current job title or posting him a new job title.
3- Terminate the employment contract by adapting the Early Retirement policy: (12) years of experience for (she) employee and (15) years of experience for (he) employee. This also requires calculating any entitlement due to the employees.
4- Terminate the employment contract by adapting Retirement policy (leave on pension): (15) years of experience for (she) employee and (20) years of experience for (he) employee.
5- Coordinate with other public institution to recruit the surplus number of staff: firstly, within the departments of Ministry of Finance such as Customs and Tax, or Land and Survey. If the surplus number of staff still remains, a thorough coordination with other institutions is required to hire those employees rather than waiting the recruitment which is usually takes place by August/ September.
6- It might happen that some employees with certain qualification or expertise are needed to recruit. This – of course- needs justification so as to avoid any misunderstanding by various bodies.
7- One of the most difficult issues is to get rid of employees at the managerial and supervisory posts such as managers and division heads, meaning that there will be (2) Financial Managers; (2) Administrative Managers; (2) IT Managers, (2) Personnel Division Heads; (2) Research & Studies Division Heads and so on so forth. This requires an interviewing panel and not an individual decision to be made by the CEO or the Consultant (s).
8- Any action which will be taken requires that Bases for Matching and Assimilating the Staffing Movement is a must. It is worthless to repeat that there are legal and financial actions which need accurate legal and financial considerations and calculations to avoid any claim or trouble in dealing with such a delicate process.

POINTS FOR CONSIDERATION

- Employees at FZC who are appointed on Civil Service By-Law must firstly resign from FZC before they are transferred to JIEC for the following reasons:
  - When merging FZC into JIEC the employees will no longer belong to FZC;
  - Since FZC employees are appointed on Civil Service By-Law, they cannot merely be moved to JIEC which is an independent entity with its own Personnel Instructions;

- ❖ Any financial entitlement must be compensated to employees or settled to the account of FZC; and
- ❖ Any new financial burden on JIEC must be calculated so as to stand on quo status of the financial matters it will bear.

- Financial entitlement of all FZC employees must be calculated for the next step procedures which will be either/ or the following:

  - ❖ Move all FZC staff as they are;
  - ❖ Accept any resignation;
  - ❖ Terminate the employment contract of :
    - employees who are older than 60 years
    - positions for which the job title does not exist any more

- Around (86) FZC's employees who are appointed according to Civil Service By-law are on governmental pension, while around (287) abide to the social security law. This matter needs further legal investigation on how to ensure the continuity of employees on PENSION.

- Regarding Labor Law, there is a need to investigate whether any legal issue needs to be considered, so no claim or case will be filed against the merging process.

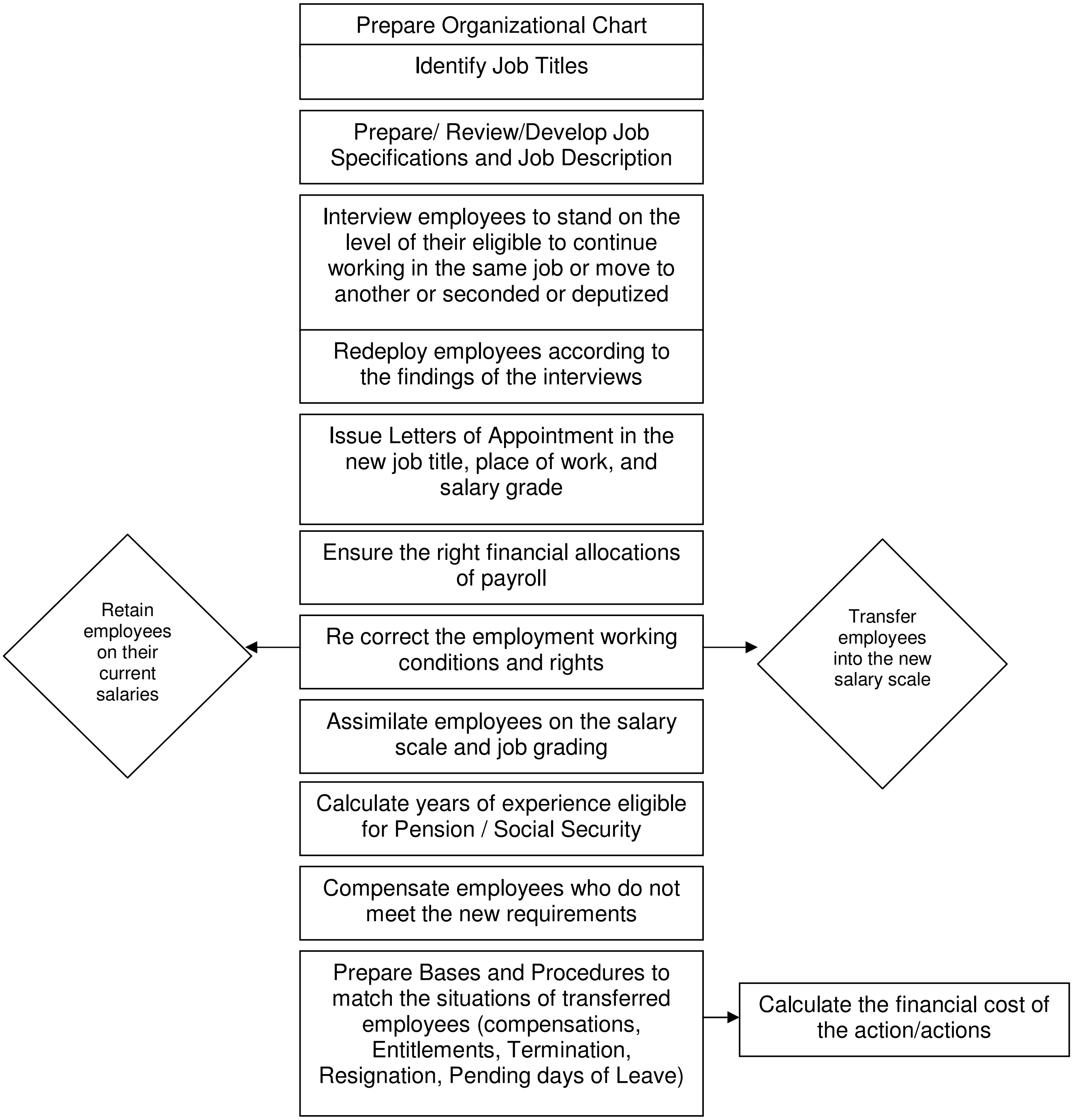
- In case any of the employees resigned for a reason or another, or his employment contract is terminated, they are entitled to receive financial compensation such as the days of leaves left unused and other retirement issues.

- Are FZC employees going to remain under the umbrella of Civil Service and Social Security (or) are they going to be a staff under the umbrella of JIEC

- Years of Service acceptable for retirement must be accountable upon the transfer to JIEC for the purpose of social security regulations.

- JIEC employees who do not meet the new job requirement must be fully compensated. Also, FZC employees who do not meet the new requirement need to be relocated / redeployed with JIEC or externally. This process will be decided upon issuing an organization chart, preparing job descriptions, assimilating employees on their current salary (which needs to be decided upon) or into a new salary scale (needs to be considered).

ISSUES TO CONSIDER IN JIEC-FZC MERGING PROCESS



ANNEX TWO – FISCAL INCENTIVES[18]

EFFECTIVE TAX RATES ON CAPITAL IN JORDAN

Our estimate of effective tax rates on capital incorporates company income tax, import duty, property tax, property transfer tax, and taxes on financial investments.[19] The estimates are made for all sectors except banking and vary by category of incentives. This is to say, our estimates cover the following 13 sectors and sub-sectors.

- Mining and quarrying
- Manufacturing
- Construction
- Public utilities
- Trade
- MTR
- Non-MTR transportation
- Communications
- Hospitals and hotels
- LARC
- CAEC
- TDWGO
- All other services

These sectors and sub-sectors fall into the following different incentive categories.

- No incentives
- Zone A
- Zone B
- Zone C

We also consider manufacturing projects located in JIEC industrial estates, since they enjoy additional incentives under JIECL 1985, and exporting projects (e.g., QIZ manufacturers), since they currently enjoy a full exemption for export revenue from income and social services taxes under a special arrangement made between Jordan and the World Trade Organization.[20]

We exclude the banking sector, which is the highest taxed sector and accounts for little more than two percent of GDP in Jordan, from our METR analysis since it is irrelevant to the investment incentive program concerned by the government at the current stage.

Table 3.1 presents our estimate of effective tax rates by sector and by incentive category. We also estimate the inter-sectoral distortion caused by the current investment incentive program, measured as the dispersion of marginal effective tax rates among all the sectors covered in this study.[21]

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[18] Extracts from Chen, et. A., Wright

[19] By assuming that investors are owners of their business buildings, we use an “arbitraged” property tax rate of five percent rather than the standard 15 percent for our METR estimate for Jordan. This is because, in reality, owner-occupied buildings are taxed much less than rental buildings.

[20] This arrangement remains in force until 2015.

[21] The inter-sectoral METR dispersion coefficient is the weighted average of the standard deviations of METR by type of assets across industry.

Table 3.1: METR for Business Sectors by Sector and Type of Incentive (%)

Sector	Zone A	Zone B	Zone C	No Incentives
Mining and quarrying	9.3	7.1	5.0	
Manufacturing				
JIEC industrial estates	6.0	4.9	3.8	
Exporting firms/QIZs		8.4	8.4	
Others	10.7	8.7	6.8	
Construction				18.6
Public utility				
Excluding TDWGO				24.5
TDWGO	16.6	12.6	8.7	
Trade				23.6
Transportation				
Excluding MTR				22.3
MTR			6.7	
Communications				27.1
Services				
Hospitals and hotels	15.8	13.7	11.6	
LARC	20.5			
CAEC	20.5			
All others				24.3
Average		**14.2**		
Distortion (points)		**4.8**		

Notes

MTR all classified as in Zone C, LARC all classified as in Zone A, and CAEC all classified as in Zone A.

“Services” includes financial services, except banks. As explained in Section 3.2, the banking sector is excluded from our study as it is irrelevant to the investment incentive program.

The additional simulations shown in Table 3.4 serve to show how effectively a flat tax rate across all sectors can alleviate inter-sectoral tax distortion.

These additional simulations, Cases 1A and 2A, demonstrate that, if all sectors were taxed at an identical income tax rate of 15 percent, in addition to the import duty exemption presented in Case 1, the inter-sectoral tax distortion could be substantially reduced to below 1.3 percent or nearly three-fourths below the current rate of 4.8 percent.

Table 3.4: Simulated METR with Single Tax Rate (%)

Sector	Base Case	Case 1	Case 1A	Case 2	Case 2A
Mining	22.0	9.1	9.1	7.9	7.9
Manufacturing	21.8	10.5	10.5	9.4	9.4
Construction	18.6	13.2	13.2	12.8	12.8
Public utility	24.5	7.1	7.1	5.6	5.6
Trade	23.6	16.3	12.6	15.2	12.0
Transportation	22.3	9.1	9.1	8.0	8.0
Communications	27.1	16.5	14.8	15.0	13.9
Hotel/hospital	21.5	16.6	16.6	16.3	16.3
Other service	24.3	19.7	16.6	19.2	16.3
Average	23.2	14.4	12.9	**13.5**	12.1
Distortion (points)	2.2	1.9	1.3	**1.8**	1.2

Key

Base Case	Exclude all incentives
Case 1	Exempt import duty on M&E for all sectors and eliminates the income tax reduction by incentive zone
Case 1A	Apply 15% income tax to all sectors and exempt import duty on M&E for all sectors
Case 2	Apply Case 1, plus 20% investment allowance
Case 2A	Case 1A plus a 20% investment allowance

All of the above simulations show that the current incentive program can be restructured to provide a level playing field for all investors in addition to lowering the burden of taxes on the economy as a whole. Although these simulations imply that some sectors or sub-sectors may lose certain tax privileges that are offered under the current incentive program, the overall improvement of the tax environment will more than offset these sectors' short-term loss and will ultimately benefit all sectors in the long run.

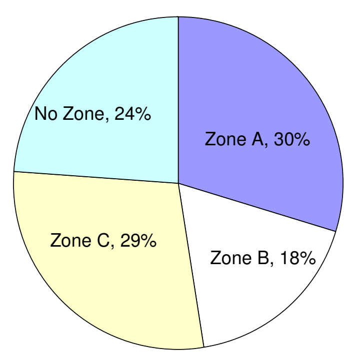
For example, while five-star hotels might lose the targeted tax advantage they currently enjoy, the economic growth stimulated by a more efficient and broadly-available incentive program is likely to bring more tourists to Jordan. This, in turn, would benefit the hotel business on a more sustainable basis over the long run than is possible with the current incentives.

Extract from SABEQ 2007

The following Figure 7. shows the distribution of JIB approvals over the past eleven years by zone. Industrial estates and free zones are evenly distributed throughout the zones. Al-Tajamouat and Abdullah II estates and Zarqa Free Zone are in Zone A. Al-Hassan estate is in Zone B. Karak, Ma'an and Ad-Dulayl are in Zone C.

Figure 7 shows the distribution by value of projects approved to receive investment incentives between 1996 and 2006. The figure excludes JD 700 million of investment in four proposed cement factories in Zone C approved by the JIB in 2006. It is very unlikely that the four cement factories will be built at the same time, if at all. The total value of approved investment in Zones A and C are about equal despite the income tax rate in Zone C being one third of the applicable rate in Zone A, and despite Zone C representing 80 percent of the total land area of Jordan. It is also interesting to note that new investment projects obtaining only the import duty exemption without income tax reduction or exemption accounted for 24 percent of total new investment in the same period

Figure 1: JIB Approvals by Zone, 1996-2006.



Sustainable Achievement of Business Expansion and Quality
Salem Center, Sequleyah Street
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