



FDI Qualities Review of Jordan

STRENGTHENING SUSTAINABLE INVESTMENT



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Preface

Revitalising the contribution of international investment to sustainable development in Jordan is more imperative than ever. While the economy is recovering from a 1.6% GDP contraction in 2020, the COVID-19 crisis has amplified existing socio-economic vulnerabilities. Foreign direct investment (FDI) – an important source of external financing, with the FDI stock-to-GDP ratio exceeding 80% – can help unlock the country's export potential and drive economic growth. However, the lack of a vibrant private sector, combined with global shocks and regional instability, have gradually eroded Jordan's performance in attracting foreign investors. At the same time, FDI held up during the first year of the COVID-19 pandemic, with Jordan's FDI inflows growing by 4% in 2020 compared to a drop of 18% across the Middle East and North Africa region – Jordan's FDI inflows strongly fell in 2021. Furthermore, the proportion of foreign firms in Jordan that permanently closed their doors during 2020 was six times lower than for domestic firms.

Multinational enterprises in Jordan may have acted as a buffer during the pandemic, but the contribution of FDI to sustainable development has been limited over the past decades. Some of the sectors that attract the most FDI in Jordan – including real estate, construction and oil and gas-related energy – are not the sectors that contribute the most to productivity and innovation, decarbonisation or the creation of quality jobs for a young and educated workforce. Although still modest, growing FDI flows in Jordan's renewable energy, business services, ICT and transport have a stronger potential to support a sustainable recovery. Overall, Jordan's comparative advantages present clear investment opportunities in highly skilled tradable services and, to a lesser extent, in some manufactured exports such as chemical goods and apparel. Consideration of the export potential of sectors that attract FDI – and reducing barriers to investment in these sectors – is crucial in view of Jordan's small market size and large current account deficit.

Timely action is needed to harness the potential benefits of FDI as Jordan embarks on ambitious reforms to reignite private investment. The government has created a new Ministry of Investment that will host all investment-related bodies, including the Jordan Investment Commission. Beyond improving the investment climate, the government is undertaking other legal and regulatory reforms to boost competition, streamline tax incentives, address labour market inefficiencies and skills shortages, foster gender equality and advance the low-carbon transition. Further efforts to implement these reforms effectively will support the government's goal of leveraging investment for sustainable development.

The *OECD FDI Qualities Review of Jordan* aims to support these reform efforts. The Review is based on the OECD FDI Qualities Policy Toolkit, which is the first government-backed tool for helping policy makers to leverage the catalytic role of FDI in financing the SDGs and optimising the strength and quality of the recovery. The Review provides policy options to increase the positive impact of investment on productivity and innovation, job quality and skills, gender equality and decarbonisation. It shows that FDI can support the sustainable development agenda of Jordan if coherent strategies are developed and implemented through strengthened co-ordination platforms. Going forward, policy interventions should adapt to evolving global FDI trends – along with other trends such as trade, digitalisation, climate change, and the future of work – to support the emergence of a more inclusive, greener and knowledge-based Jordanian economy.

The Government of Jordan – an adherent to the OECD Declaration on International Investment and Multinational Enterprises – and the OECD are pleased to have joined forces in producing this Review and believe that it will help lay the foundations of a more inclusive and sustainable recovery.



Eng. Kheiry Yaser Amr
Minister of Investment, Jordan



Yoshiaki Takeuchi
Deputy Secretary-General, OECD

Foreword

This *FDI Qualities Review of Jordan* examines how foreign investment can help Jordan meet the Sustainable Development Goals (SDGs) in the areas of productivity and innovation, job quality and skills, gender equality and decarbonisation. FDI provides an important source of financing in Jordan but the reform momentum needs to be sustained and deepened so that the benefits of investment can be shared more widely across society. The review sheds light on the contribution of FDI to sustainable development and identifies policy options to increase its positive impacts. It provides an overview of Jordanian public institutions responsible for investment, taking a close look at arrangements to ensure policy co-ordination, stakeholder consultation and evaluation of policy impacts. It also examines the mix of government policies that are currently in place to attract the investment that contributes to sustainable development, noting areas for priority policy reforms.

The review has been prepared by the OECD in close co-ordination with the Ministry of Investment and with the support of a dedicated task-force that included the Ministry of Planning and International Co-operation; Ministry of Digital Economy and Entrepreneurship; Ministry of labour; Ministry of Energy and Mineral Resources; Ministry of Environment; Ministry of Higher-Education and Scientific Research; Ministry of Industry Trade & Supply; Ministry of Local Administration; Central Bank of Jordan; Economic and Social Council; Jordanian National Commission for Women; Jordan Enterprise Development Corporation; Higher Council for Science and Technology; National Centre for Innovation; National Centre for Human Resources Development; Vocational Training Corporation; Department of Statistics; Jordan Strategy Forum; Jordan Chamber of industry; Jordan Chamber of commerce; Jordanian Society for Renewable Energy; Jordanian Society for Business and Entrepreneurship; European Commission; International Labour Organization; and International Trade Centre. The contribution and participation of the Ministry of Investment, represented by Areej Zgailat, Amal Momani and Salam Albawab, was instrumental to the completion of the report.

The review is part of the EU-OECD Programme on Investment in the Mediterranean and serves as a pilot for future country and regional work to support reform efforts in the Middle East and North Africa region and beyond. It supported the development of the OECD FDI Qualities Policy Toolkit which provides policy guidance to strengthen the contribution investment can make to sustainable development. The review has benefited from peer review by the OECD Investment Committee and the OECD FDI Qualities Network.

The review was prepared by a team led by Fares Al-Hussami and comprising Stratos Kamenis, Iris Mantovani, Letizia Montinari, Martin Wermelinger, and Takashi Yukizawa of the Investment Division in the OECD Directorate for Financial and Enterprise Affairs. It is developed as part of the OECD FDI Qualities Initiative, led by Martin Wermelinger, Head of Investment Qualities and Incentives, under the overall guidance of Ana Novik, Head of the Investment Division, and Stephen Thomsen, Deputy Head of the Investment Division. Carla Grados Villamar, Mertol Ozaltan and Mariadolores Schiavone provided substantive inputs. Hélène François and Sarah Marion Dayan of the Investment Division and Alin Horj of the Middle East and Africa Division in the OECD Global Relations Secretariat, provided valuable comments. Liv Gudmundson and Robert Akam helped prepare the report for publication. Nadia Kameledine and Angèle N'Zinga provided project and administrative assistance.

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Abbreviations and acronyms

ASEAN	Association of Southeast Asian Nations
BDS	Business development services
BIT	Bilateral Investment Treaty
CIT	Corporate income tax
CSR	Corporate social responsibility
FDI	Foreign direct investment
GDP	Gross domestic product
GVC	Global value chain
ICT	Information and communications technology
IIA	International Investment Agreement
ILO	International Labour Organization
IMF	International Monetary Fund
IPA	Investment promotion agency
ISDS	Investor-State Dispute Settlement
JIC	Jordan Investment Commission
LCR	Local content requirement
M&A	Merger and acquisition
MENA	Middle East and North Africa
MNE	Multinational enterprise
Mol	Ministry of Investment
NCP	National Contact Point
OECD	Organisation for Economic Co-operation and Development
OSS	One-stop shop
PPP	Public-private partnership
RBC	Responsible Business Conduct
SEZ	Special Economic Zone
SME	Small- and medium-sized enterprise
SOE	State-owned enterprise
SSEI	Sustainable Stock Exchanges Initiative

Executive summary

Jordan's economy is on the road to steady recovery from a comparatively moderate GDP contraction of 1.6% in 2020, reflecting the timely policy response to the COVID-19 crisis by the Jordanian authorities. Nonetheless, the pandemic has amplified existing structural challenges – at the forefront of these the dramatic number of unemployed youth and women, hastening the need to revitalise private investment for an inclusive and sustainable recovery. Already prior to the pandemic, stagnant productivity growth, labour market imbalances and reliance on a few industries have constrained sustainable development in Jordan. Furthermore, instability in neighbouring countries has cut off important trade corridors, leading to a significant drop in exports and a sharp increase in energy costs from imported fuels. These persistent domestic vulnerabilities, combined with global and regional shocks, have gradually eroded Jordan's competitiveness and related foreign direct investment (FDI) performance over the last 15 years.

The challenge for Jordan is not only to restore and increase FDI levels, but also to enhance their alignment with sustainable development objectives to support the recovery. Notwithstanding an FDI stock-to-GDP ratio exceeding 80%, some of the sectors that attract the most FDI in Jordan – including real estate, construction and oil and gas-related energy – do not contribute the most to the diffusion of innovation, decarbonisation or the creation of quality jobs. Recent shifts in sectoral FDI trends might better match the country's factor endowments. Jordan's renewable energy sector, business, financial and health services, transport and logistics, and ICT have received relatively more FDI in recent years compared to manufacturing or construction. These sectors have a strong potential to generate economy-wide productivity gains, support a low-carbon transition and create better-paid jobs that can meet the aspirations of Jordanian youth and women, including the highly educated.

Jordan's comparative advantages present clear investment opportunities in high-skilled tradable services and, to a lesser extent, in some manufactured exports such as chemical goods and apparel. Considering the export potential of sectors that attract FDI – and barriers to invest in these sectors – is important given the small size of the Jordanian market, large current account deficit and limited intra-regional trade integration. Opening of services could help achieve the key objectives of the Jordan Vision 2025 and other related national plans. Reforms in Jordan have largely liberalised the manufacturing sector but many service sectors remain partly off limits to foreign investors, including business services, distribution, infrastructure, and tourism, services where FDI has a strong potential to support sustainable development.

While it is crucial to attract FDI in sectors with high development potential, maximising the positive impacts of foreign firms' operations is equally important for a sustainable recovery. During the pandemic, the proportion of foreign firms in Jordan that had to close permanently their business was six times lower than that of domestic firms. They were also faster in retrieving their pre-pandemic workforce levels – similar to foreign firms in other countries. Overall, foreign affiliates in Jordan tend to be more productive, pay higher wages, employ more women, and provide more training, but their performance premium is small and weaker than in other countries, particularly when it comes to green business practices. Furthermore, the potential for positive FDI spillovers is limited. Weak competition has created a large group of small, old and unproductive domestic firms that are vulnerable to foreign competitors and lack the capabilities to become their suppliers. Competition reforms should help reduce the high cost of doing business in Jordan – in

particular energy cost – and allow for a more dynamic private sector that can better absorb the gains from FDI spillovers through a more efficient reallocation of resources and greater labour mobility.

Other legal and regulatory barriers influence negatively the impacts of FDI on sustainable development in Jordan. These include, among others, lengthy steps to start a business and access to finance (productivity and innovation), legal barriers and loopholes preventing women from participating in the labour market (gender equality), high levels of wage-setting distortions, weak collective bargaining rights and burdensome procedures to hire foreign talent (job quality and skills development) and challenges in accessing land for renewable-power projects (reducing carbon emissions). The government has introduced important reforms in all these areas, yet further efforts would ensure that the wider policy framework is aligned with the government's goal of leveraging investment for sustainable development.

Implementing structural reforms at the intersection of investment and sustainable development requires clear whole-of-government strategies and strong co-ordination mechanisms. Jordan has a coherent framework of national strategies – at the forefront of these is Jordan Vision 2025 – providing overarching directions to support sustainable development, with consistent references to the role of private (and foreign) investment. Strategies are not always developed in a co-ordinated manner both within and across areas of sustainable development, however. For example in the area of productivity and gender equality, strategies are introduced without cross-referencing those of other state bodies. Going forward, Jordan could further consolidate the strategic framework for investment and sustainable development. Information on strategies and plans could be further centralised on a single platform and made easily accessible to all public and private actors involved in improving the impacts of FDI on sustainable development.

There are no mechanisms in Jordan exclusively dedicated to policy co-ordination in the area of sustainable investment. Other existing mechanisms nevertheless could take a more prominent role to ensure strategic alignment at high political level – notably through the Investment Council where the presence of the Minister of Labour is unique to Jordan, but also through other high-level bodies. The creation of a Ministry of Investment (MoI) in 2021 that is responsible for all investment-related affairs and bodies, including the Jordan Investment Commission and the Public-Private Partnership Unit, is a positive development in terms of improved co-ordination and streamlining of licensing procedures, but the reform is still at its early stages. At the implementation level, co-ordination of initiatives and joint programmes is largely absent in the area of sustainable investment. Involving MoI in policy design and delivery of other agencies – and vice versa – would help to bring in investor perspectives and develop more coherent and effective policy interventions.

Targeted policy interventions – financial and technical support and information or facilitation services – can help governments act on specific sustainability outcomes of FDI. In Jordan, the policy mix reflects the country's most pressing priorities, as most policy instruments influence directly or indirectly the contribution of FDI to job creation and SME growth. Policy interventions also focus on incentivising investment in clean energy and on equipping workers with the right skills, although often for less-skilled jobs in the manufacturing sector. Gradually adjusting the policy mix to meet the emerging challenges and opportunities facing the Jordanian economy and adapt to evolving global FDI trends – along with other megatrends such as digitalisation and climate change – will support the emergence of a more inclusive, greener and knowledge-based economy in which the tradable service sector plays a greater role.

Tax and financial incentives are the most widely used types of policy measures to attract FDI in Jordan, but they are often not related to the actual performance of firms. The ongoing reform of investment incentives could further streamline existing tax incentives, opting for incentives related to sustainability criteria – one example is the recently introduced tax incentive conditional on hiring Jordanian women in the industrial sector – and progressively phase-out incentives supporting sectors with declining productivity or excessive carbon emissions. MoI should also play a stronger role in raising awareness about sustainability standards among foreign and domestic investors by strengthening the capabilities of the Jordanian National Contact Point, which would help fulfil its mandate of, inter alia, promoting responsible business conduct and due diligence in supply chains.

1 Overview and key policy considerations

The first section of this chapter assesses sustainable investment in Jordan and derives overarching policy considerations. An analysis by areas of sustainable development (productivity and innovation, job quality and skills development, gender equality, and low-carbon transition) is provided in the second section.

1.1. Impact of FDI on sustainable development in Jordan and overarching policy considerations

This section assesses the main challenges and opportunities in terms of sustainable development in Jordan and discusses how foreign direct investment (FDI) can support the recovery from the COVID-19 crisis and sustainable development in the future. It then derives key considerations for institutional and policy reforms to boost FDI-led progress towards the Sustainable Development Goals (SDGs).

1.1.1. Main challenges and opportunities for sustainable development in Jordan

Stagnant productivity growth, labour market imbalances and dependence on imported fossil fuels constrain sustainable development in Jordan

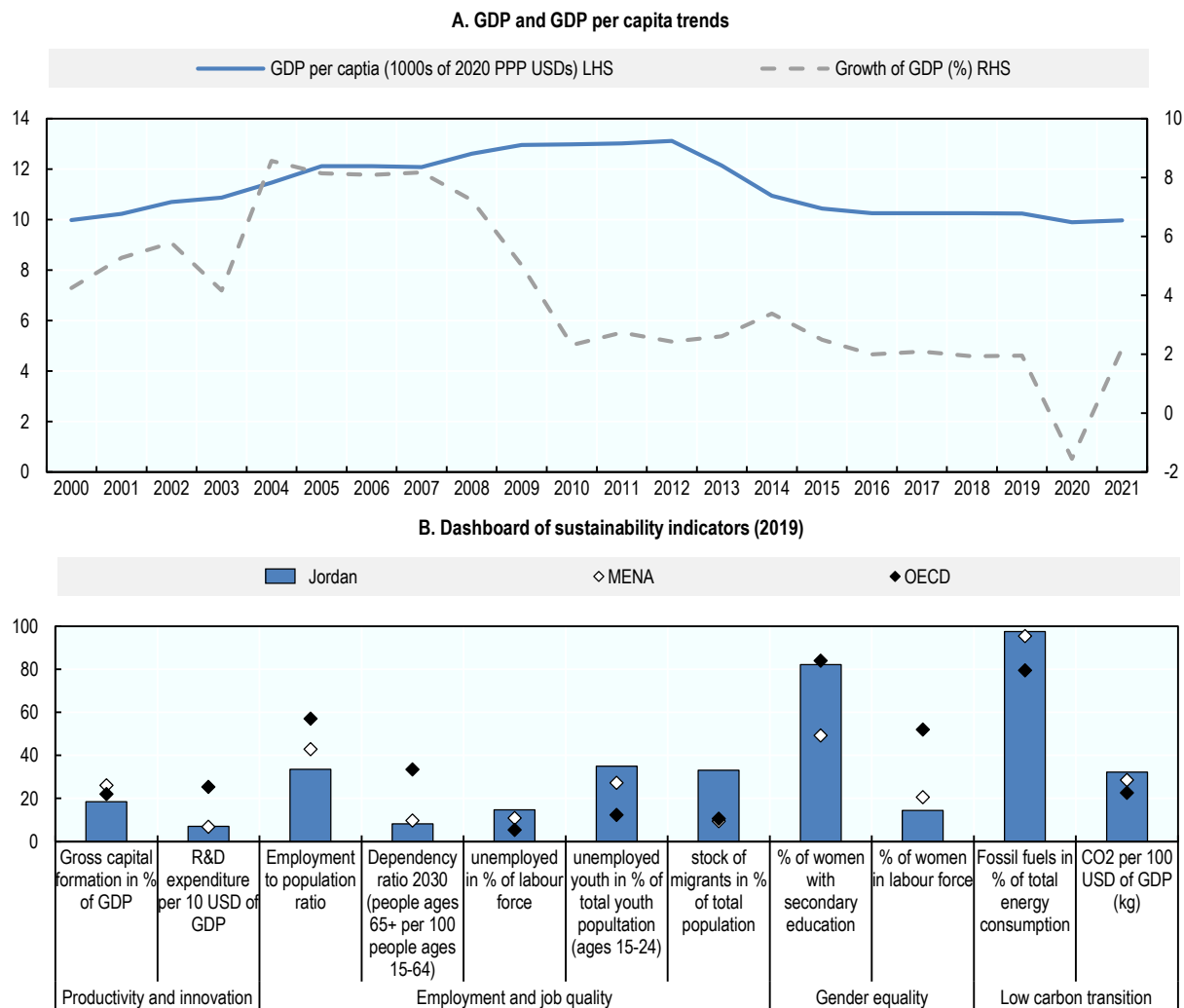
Economic development in Jordan has slowed in recent years, after witnessing a period of rapid economic growth and development in the 2000s. Annual GDP growth averaged between 4-8% over 2000-08 (Figure 1.1, Panel A), similar to growth rates in many peers in the Middle East and North Africa (MENA) as well as other emerging regions. More than in other MENA countries, foreign direct investment (FDI) and integration into global value chains (GVCs) have enabled economic growth and productivity in Jordan. FDI inflows have mainly gone to real estate development and the energy sector (power generation) (70% of greenfield FDI) but also manufacturing such as garments, textiles and chemicals. However, Jordan's economic development process slowed down after the global economic crisis in 2008; growth now averages around 2% per year. In addition to this slowdown, ongoing conflicts in neighbouring countries that have cut off important trade corridors led to a significant drop in demand for Jordan's exports and a sharp increase in energy costs from imported fuels (Chapter 2). Jordan's reduced competitiveness has also been accompanied by lower investment than in the MENA region and OECD countries and a relatively low intensity of knowledge activities such as research and development (R&D) (Figure 1.1, Panel B).

Jordan has an opportunity to reap the benefits of a young and well-educated population but more inclusive growth is challenged by various labour market imbalances. The employment rate is low compared to the average for MENA and OECD countries, with many people in informal and low-paid jobs, and many young and highly educated graduates are unemployed, particularly women (Figure 1.1, Panel B). Progress in women's educational attainment in Jordan has not been followed by increased participation of women in the labour market. The female participation rate is among the lowest in the world, at only 14%, and the gender pay gap remains significant (Chapter 4). Insufficient job creation through private investment, combined with a growing labour force and considerable skills imbalances, are the main challenges facing the labour market in Jordan – challenges that the influx of refugees and the COVID-19 pandemic have exacerbated (Chapter 3). The public sector is no longer absorbing a large number of new graduates, but continues to offer more attractive working conditions than the private sector, thereby limiting labour mobility. These challenges have also led to a decline in average per capita incomes since 2012; corrected for purchasing power parity, incomes have now returned to levels seen in 2000 (Figure 1.1, Panel A).

Water, food and energy security are amongst the biggest challenges to achieving sustainable development in Jordan and have serious implications for Jordan's carbon emissions and its ability to meet its climate targets (Chapter 5). Water scarcity and high energy costs are also crucial barriers to private sector growth and productivity. Jordan is one of the world's most water-scarce countries, and climate change is expected to exacerbate this scarcity. Jordan's geographical conditions are such that high energy inputs are required to filter and transport water over long distances and varied terrains. Jordan's energy sector is overwhelmingly fossil fuelled (Figure 1.1, Panel B), and has been subject to rising costs due to conflicts and political instability in the region, high dependence on energy imports and the growing demand of a larger population due to the influx of refugees. Given its natural resource endowments, Jordan has a strong potential for the development of renewable energy technologies, especially in solar and wind energy. While

there is still a long way to go, Jordan has made important strides in recent years reaching its 10% renewable energy target for 2020 ahead of schedule, and is now aiming for as much as 31% of its electricity mix to come from renewable sources by 2030.

Figure 1.1. Economic and sustainability context in Jordan



Source: OECD based on The Conference Board's Total Economy Database and World Bank (Panel A) and UNDP's Human Development Index 2020 (Panel B). Data for 2021 are based on projections.

Boosting services can support inclusive and sustainable growth in Jordan

Reigniting exports and FDI can drive inclusive and sustainable growth in Jordan as well as support the ongoing recovery from the pandemic. Fiscal and balance of payments constraints remain a challenge. Despite fiscal adjustments, Jordan's debt-to-GDP ratio has risen to above 90% since the 2008 crisis. Future growth cannot depend on fiscal stimulus, nor can it be expected to come from fiscal discipline. The current account deficit is already large, so growth cannot be driven by increases in private domestic demand for non-tradable goods, as these would require more imports and worsen the external balance. Jordan's growth and productivity potential thus lies in export activities and foreign investment inflows, which will lower the current account deficit and also have a multiplier effect on the non-tradable sector.

The immediate potential for inclusive and sustainable growth lies in services activities that are neither energy- nor water-intensive. Jordan has the natural endowments to reduce the costs of electricity in the medium term through an acceleration of investments in renewable energy generation and leveraging new technologies to maintain grid stability (Chapter 5). This would also help Jordan's green growth agenda more generally and create new opportunities for sustainably increasing water supply, which would also improve competitiveness in (energy- and water-intensive) manufacturing activities.

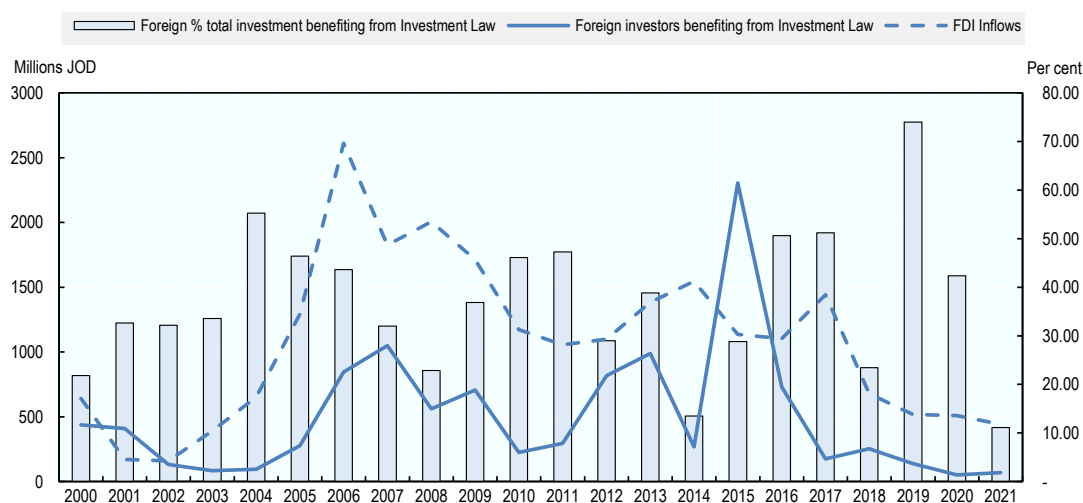
The potential for inclusive growth in services is supported by the growing workforce with tertiary education (Chapter 3). While the most recent change in the labour force is driven by significant inflows of refugees, Jordan's comparative advantage in skills-intensive activities has developed over a longer period, driven by a significant increase in women's tertiary education (Chapter 4). Traditionally, female labour was in the education, health and non-market services sectors, but further female workers cannot be absorbed by these non-tradable sectors due to fiscal constraints. Jordan should therefore boost investment and create jobs in tradable services such as ICT and other business services, transport and logistics, creative industries and tourism. Many of these services, which have already served as a driver for growth and exports over the past decade, could be further expanded in the future and, with appropriate investment, have significant potential to raise productivity from current low levels.

1.1.2. There is strong potential for FDI to contribute to a sustainable recovery in Jordan

FDI in Jordan is an important source of financing that held up during the pandemic...

The Government of Jordan prioritises FDI as a driver of sustainable development. Ambitious liberalisation reforms in the 1990s made the Kingdom one of the most successful countries in attracting FDI – the FDI stock-to-GDP ratio exceeded 80% in 2020, which is high compared to other economies. In 2014, the government adopted a modernised investment law and launched a revamped investment promotion agency, the Jordan Investment Commission (JIC), which became the Ministry of Investment (Mol) in 2021. Projects benefitting from the Investment Law refer to firms that are registered with Mol to exercise activity in Development Zones (areas within customs) and Free Zones (areas outside of customs). These companies benefit from various tax exemptions or reductions – the Investment Law and related regulations also give incentives to some activities outside of zones, but projects are not registered through Mol. Foreign projects registered with Mol represented 50% of total inward FDI inflows between 2000 and 2020 (Box 1.1). They also accounted for 40% of all Mol-registered projects, the rest being domestic projects (Figure 1.2).

Figure 1.2. FDI inflows and foreign investments benefiting from the 2014 Investment Law, 2000-21



Source: OECD based on Central Bank of Jordan (official FDI inflows) and Jordan Ministry of Investment.

Box 1.1. Sources of FDI statistics in Jordan

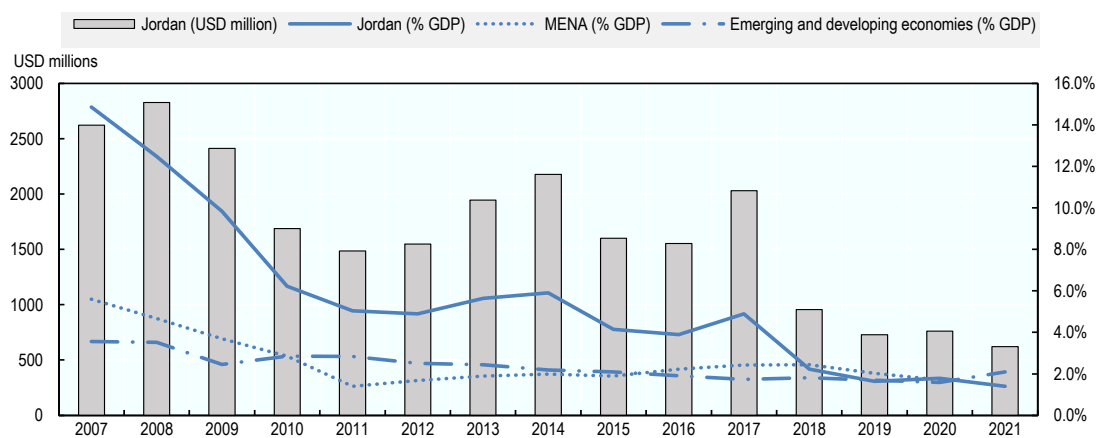
Jordan uses a number of different data sources, as do most countries, in compiling its FDI statistics; it conducts FDI surveys, considered to be the best source of information for FDI statistics, and is currently developing a new survey in conjunction with the Department of Statistics and Mol. The Central Bank of Jordan (CBJ) is the official source of FDI statistics and it compiles FDI statistics that largely follow the international guidelines. Differences in FDI inflows as compiled by CBJ and foreign projects registered with Mol may reflect differences in data collection methodologies, possibly explaining the inconsistencies observed in 2001 and 2015. Other sources of investment statistics include the Amman Stock Exchange (ASE), where foreign companies – firms with 10% foreign ownership or more – account for 70% of ASE market capitalisation and 73% of employment by listed companies. Investment statistics compiled by the CBJ, Mol and ASE do not use the same industry classification, reducing the ability to conduct an analysis on the impacts of FDI on sustainable development. The OECD completed in 2020 an in-depth review of FDI statistics in Jordan that provides detailed recommendations, including publishing FDI position and transactions by industry. CBJ collects such FDI statistics but does not disseminate it online. Jordan could also collect and disseminate, through the Department of Statistics, in co-operation with Mol, firm-level statistics disaggregated by business ownership, either through establishment census data or periodical surveys (or both).

Source: OECD (2020^[1]), OECD Review of Foreign Direct Investment Statistics: Jordan, <https://www.oecd.org/investment/OECD-Review-of-Foreign-Direct-Investment-Statistics-Jordan.pdf>; Central Bank of Jordan, Jordan Investment Commission and Amman Stock Exchange.

Despite important investment climate reforms, persistent structural challenges and dependence on a few industries, combined with global shocks and regional instability, have gradually eroded Jordan's FDI performance in the last 15 years. FDI inflows represented less than 2% of GDP in 2020 and 2021, on par with comparator groups, but much lower than the country's average performance over the last decade (Figure 1.3). Jordan's FDI inflows held up during the first year of the COVID-19 pandemic and increased by 4% in 2020 compared to 2019 while it dropped by 18% in the MENA region. Foreign projects benefiting from the 2014 Investment Law and registered with Mol – projects in Free or Development zones – have declined more strongly in 2020. Due to the ongoing crisis, Jordan's FDI inflows declined by 18% in 2021.

Figure 1.3. FDI in Jordan has been declining overall but held up during the COVID-19 pandemic

Jordan FDI inflows in USD millions (left axis); FDI inflows as a share of GDP (right axis)

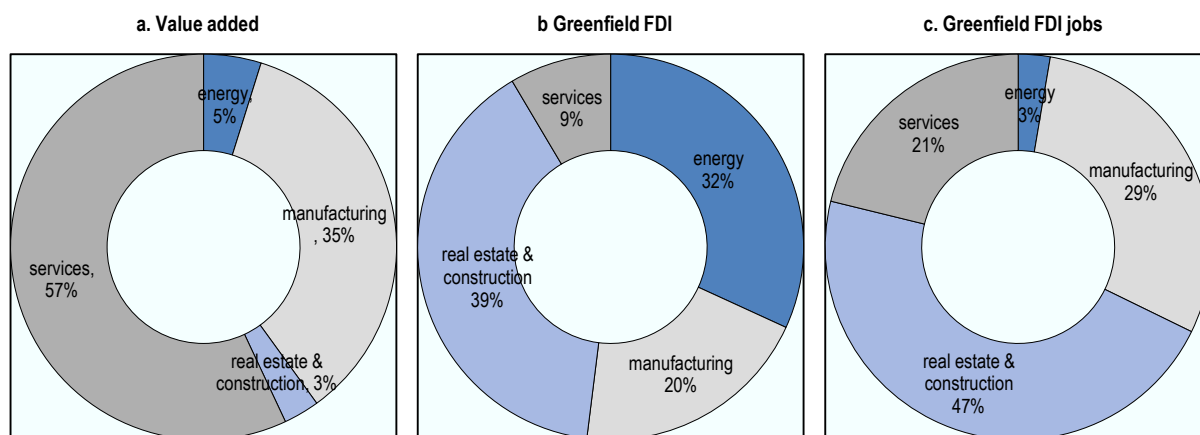


Note: MENA includes Algeria, Egypt, Jordan, Lebanon, Libya, Morocco, the Palestinian Authority, and Tunisia. Data for 2021 is preliminary.
Source: IMF Balance of Payments database, IMF World Economic Outlook database (GDP) and OECD FDI statistics database.

... but its contribution to sustainable development has been limited

The challenge for Jordan is not only to restore and increase FDI levels, but also to enhance their alignment with the SDGs to support the recovery. Despite a large stock of FDI, Jordan has not been as successful as other economies in leveraging investment to promote sustainable development. Some of the sectors that attract the most FDI in Jordan – including real estate, construction and oil and gas-related energy – do not contribute the most to productivity and innovation, green growth or the creation of quality jobs for young women and men. While the services sector produces almost 60% of the country's value added, it attracted less than 10% of greenfield FDI between 2003 and 2020 (Figure 1.4). Within services, the financial sector attracts most FDI – the sector accounts for 77% of total market capitalisation by foreign firms in Amman Stock Exchange (ASE) against 10% in other services. FDI in manufacturing created many jobs in the early 2000s, particularly for women, but accounted for 20% of greenfield FDI, a share that has been gradually declining in recent years, compared to 40% in most ASEAN economies (OECD, 2021^[2]). Furthermore, manufacturing FDI has been concentrated in low productivity and low skill-intensity sectors, such as the garment industry, and has been responsible for large shares of oil-based fuel consumption.

Figure 1.4. Jordan has an opportunity to improve the impact of FDI on sustainable development



Note: Greenfield FDI corresponds to announced capital expenditure (CAPEX). Number of jobs and CAPEX are partly based on estimates. Greenfield FDI variables cover the period between 2003 and 2017 and national economy variables cover the period between 2013 and 2017. Source: OECD calculation based on Financial Times fDi Markets and Jordan's Department of Statistics.

Evolving global FDI trends and changing investment patterns in Jordan might be able to better match the country's factor endowments, thereby also promoting sustainable development. Jordan's renewable energy sector, business, financial and health services, transport and logistics, and ICT – sectors that are also expected to boost global FDI flows in 2021 and beyond – have received relatively more FDI in recent years compared to manufacturing and construction. These sectors often have higher productivity levels, create better-paid jobs that can meet the aspirations of Jordanian women and men, and can support green growth. Overall, Jordan's current comparative advantages present clear investment opportunities in fast-growing high-skilled tradable services as well as some opportunities in certain manufactured and agricultural goods, including the export of chemical products (Hausmann et al., 2020^[3]; ILO, 2022^[4]). Considering the export potential of sectors that can attract FDI with high impacts on the SDGs – and the barriers that hinder this potential – is important given the small size of the Jordanian market and the limited intra-regional trade.

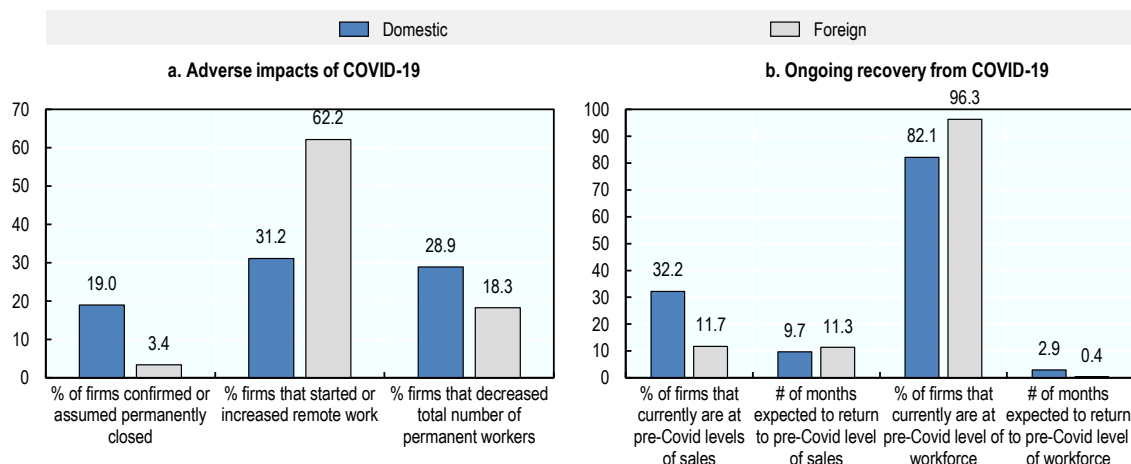
Attracting MNEs to sectors that can drive the SDGs is crucial, but is not enough to maximise the benefits of FDI in Jordan. The impact of foreign companies' operations on sustainable development is equally important. The OECD FDI Qualities Indicators show that foreign companies in Jordan perform better than

domestic firms in several dimensions of sustainability. They tend to be more productive, pay higher wages, employ more women, and provide more training opportunities. Their performance premium is, however, small and weaker than in other peer countries, suggesting that there is a strong potential for policy interventions that help FDI to achieve better sustainability outcomes. This potential is even higher when it comes to green business practices, an area in which foreign firms perform relatively poorly.

FDI also influences SDG outcomes indirectly through foreign companies’ supply chain linkages and other market interactions with domestic firms. The potential for positive FDI spillovers is, however, limited in Jordan. Supply chain linkages between foreign and domestic firms, a key channel for FDI spillovers, are weak in comparison with other countries (Chapter 2). This limits the ability of foreign firms to influence the business, labour, gender and environmental practices of domestic firms. Furthermore, weak competition due to, among other things, a bloated public sector, has created a large group of small and old unproductive private sector firms that are vulnerable to foreign competitors. This also creates inefficiencies in the allocation of resources and limits labour mobility. Generally, high-skilled Jordanians prefer to work in the public sector because of the attractive working conditions. A more dynamic private sector will enable FDI to reallocate human capital to more productive activities and, in turn, support sustainable development.

Crippled MNE operations due to the COVID-19 pandemic may have temporarily delayed Jordan’s achievements towards reaching the SDGs, but MNEs can also support a more inclusive, sustainable and faster recovery due to their higher productivity and stronger resilience to shocks. During the pandemic, the proportion of foreign firms in Jordan that had to close permanently their business was six times lower than of domestic firms (Figure 1.5, Panel A). They were also proportionally more to start or expand remote work, fewer to decrease employment and faster to retrieve their pre-pandemic workforce levels – similar to foreign firms in other countries (OECD, 2020^[5]). Recovery in terms of sales levels is, however, slower among foreign firms, potentially reflecting their high concentration in activities that are severely affected by the pandemic, potentially the apparel sector that employs a large share of women (Figure 1.5, Panel B).

Figure 1.5. The impact of COVID-19 on the activities of domestic and foreign firms in Jordan



Source: OECD based on World Bank Enterprise Survey of Jordan “COVID-19: Impacts on Firms” conducted on November 2020-January 2021.

1.1.3. Improving the institutional framework for investment and sustainable development

Considerations for reforming the institutional framework on sustainable investment

- **Further consolidate the strategic framework for sustainable investment.** Forthcoming horizontal strategies and plans such as Jordan Vision 2025 and Economic Growth Plans should provide coherent and strategic directions on investment and sustainable development objectives. The government should also ensure that investment considerations are explicitly integrated in various strategies on innovation, SMEs, employment, skills, gender, and decarbonisation and vice versa. Strategies should provide clear policy directions, set targets and clarify responsibilities across government bodies to ensure synergies and avoid overlaps.
- **Centralise information on the strategic framework.** In all areas of sustainable development covered in this report, strategies are framed under Vision 2025, but information on strategies and plans under this vision could be further centralised on a single platform with links to websites of ministries and made easily accessible to ministries, agencies, investors and all actors involved in improving the impacts of FDI on sustainable development (including in English).
- **Strengthen co-ordination at strategic levels.** Policy co-ordination in the area of sustainable investment could be further strengthened by ensuring that public and private institutions from relevant sustainable policy areas and stakeholder groups (including foreign investors) are represented. The most natural state body for such co-ordination is the Investment Council.
- **Co-ordinate and co-operate on policy programmes across implementation agencies.** Co-ordination of policy initiatives and joint programmes is currently largely absent in the area of investment and sustainable development. Involving MoI in policy design of other agencies – and vice versa – would help to bring in investor perspectives and develop joint policy interventions.
- **Develop a national standard for monitoring and evaluation of policies.** Currently, the practice of monitoring and evaluation depends on the discretion of policy implementing agencies and, if it occurs, methodologies are not sufficiently transparent. Efforts to collect quantitative and qualitative information from various stakeholders should be strengthened and could involve surveys and public-private dialogue events.

Jordan gives high priority to private investment as a driver for sustainable development

Jordan has a coherent framework of national strategies to support the SDGs with consistent references to the role of private (domestic and foreign) investment. Providing the overarching direction, Jordan's Vision 2025, the Economic Growth Plan 2018-22 and other strategic documents point to sectors with significant potential for investment, productivity, employment (including for women) and green growth. The emphasis is on the development of modern, ITC services and sustainable infrastructure (e.g. renewable energy or transport), which is in line with sectoral growth opportunities discussed in this report (Chapter 2).

Vision 2025 is supported by multiple national strategies for the implementation of policy objectives across various areas of sustainable development and policy domains (e.g. Jordan Investment Promotion Strategy; National Policy and Strategy for Science, Technology and Innovation 2021-25; National Employment Strategy 2011-20; National Strategy for Human Resources Development 2016-25; National Strategy for Women 2020-25; Green Growth National Action Plan 2021-25). While the importance of private investment is mentioned in all strategies, references are sometimes generic and not always linked to specific priority actions or projects; this is particularly true for policy efforts towards a low-carbon economy.

Strategies are not always developed in a co-ordinated manner both within and across areas of sustainable development. For example in the area of productivity, job quality and gender equality, strategies are introduced without cross-referencing those of other state bodies. On the other hand, the strategic framework for green growth, as a top national priority, has been effectively consolidated since 2017 under the National Green Growth Plan – which could be a guiding example for consolidation and alignment in other sustainability areas. Across areas of sustainability, all strategies are framed under the 2025 Vision but information on strategies and plans under this vision could be further centralised on a single platform with links to websites of the various ministries and made easily accessible to ministries, agencies, investors and all actors involved in improving the impacts of FDI on sustainable development.

Strengthen policy co-ordination and promote joint policy initiatives

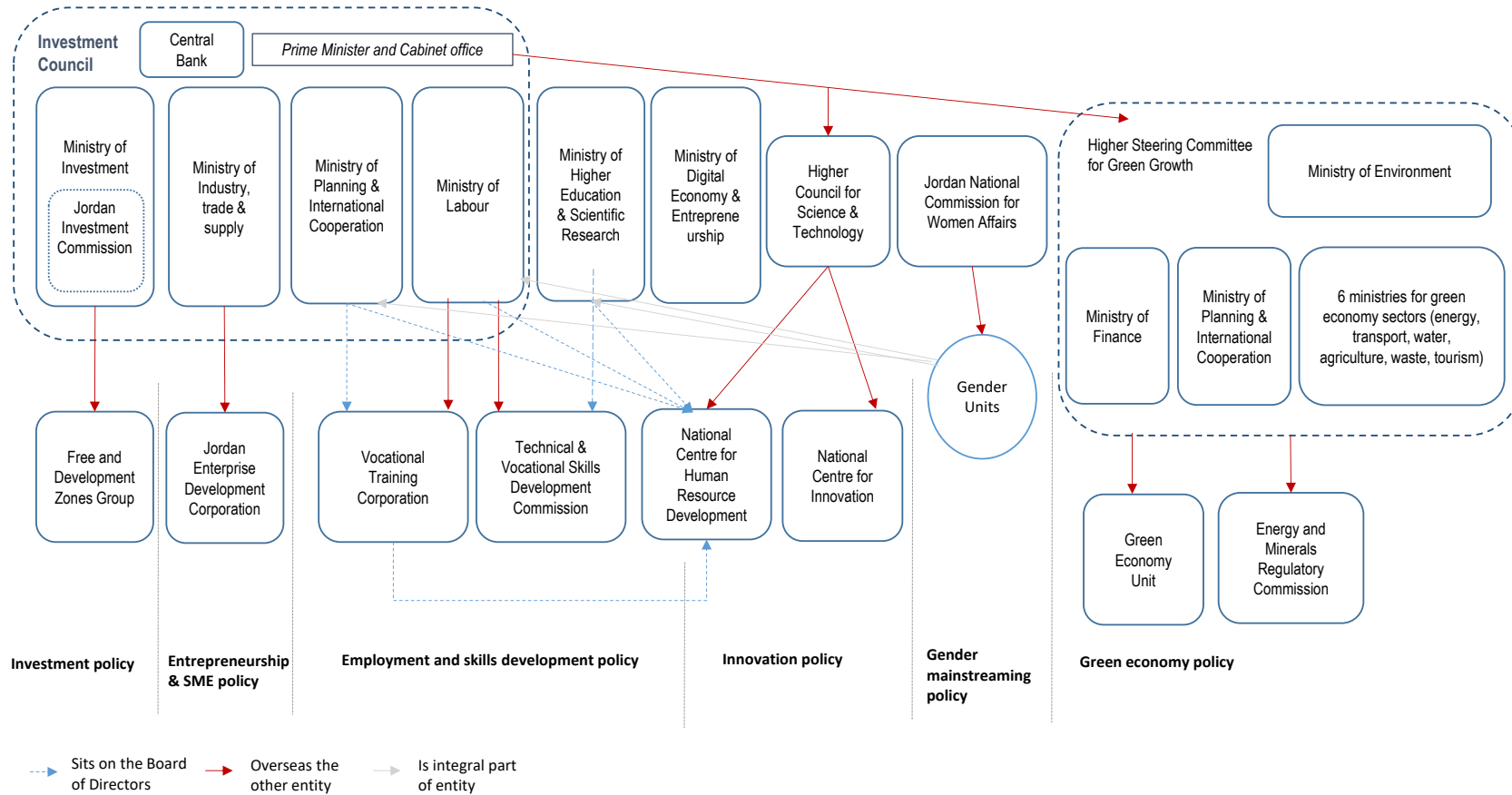
There are no mechanisms in Jordan exclusively dedicated to policy co-ordination in the area of investment and sustainable development. Other existing mechanisms nevertheless could take a more prominent role to ensure some strategic alignment at high political level – notably through the Investment Council where the presence of the Ministry of Labour is unique to Jordan, but also through other high-level bodies (Figure 1.6). The creation of a new Ministry of Investment in 2021 that will be responsible for all investment-related affairs and bodies, including JIC and the Public-Private Partnership Unit, could constitute a positive development in terms of streamlining licencing procedures and improved co-ordination with other ministries, but the institutional reform is still at its early stages.

Co-ordination could be further strengthened by ensuring that public and private institutions from all pertinent policy areas and all stakeholder groups (including for example foreign investors) are represented in relevant committees, councils and boards of directors. High-level bodies overseeing skills development, innovation, gender equality and green growth are not represented in the Investment Council nor are they all united in other co-ordination bodies. Yet, in the area of gender equality, both the Ministry of Labour and the Ministry of Planning and International Co-operation, which are part of the Investment Council, have gender units that help represent gender issues in labour market and investment policy making. Similarly, in the area of green growth, the Higher Steering Committee for Green Growth (HSCGG) reports directly to the Prime Minister who also chairs the Investment Council. This suggests that the Investment Council holds important authority overseeing the framework for investment in green growth.

At the implementation level, horizontal co-ordination and co-operation between agencies through joint planning and delivery of policy initiatives is broadly absent and – in some cases – agencies have overlapping responsibilities. For example, there is limited co-ordination between Mol and the main agencies in charge of delivering employment services and training support, including the newly established bodies in charge of technical and vocational training and skills needs assessments. Similarly, joint initiatives between Mol and the Jordan Enterprise Development Corporation (JEDCO) or agencies working on innovation, gender equality and green growth have not been identified.

Considering ways to involve Mol in other policy domains related to sustainable development could help tailor programmes to the investor needs and concerns (e.g. the design of skills programmes would benefit from investor perspectives to identify and address skills shortages; or investor perspectives could help in the design of green growth programmes and identify key bottlenecks to climate-resilient investments). In some cases, there is overlap in mandates and responsibilities of different agencies, which can create unnecessary administrative burdens for investors (e.g. several governmental institutions are involved in setting administrative and licencing procedures for renewable-energy projects). On the other hand, vertical co-ordination mechanisms between levels of government are fairly well-established (e.g. Mol is well-placed to convey investor concerns to the Investment Council and can thus give important inputs to policy reforms at higher levels).

Figure 1.6. Public institutions influencing sustainable investment in Jordan



Source: OECD based on the FDI Qualities Mapping of Policies and Institutions of Jordan (2021).

Monitoring and evaluation of the impact of policies and engagement with stakeholders happens sometimes but efforts could be reinforced in Jordan. There is no national standard for monitoring and evaluation of policies in Jordan. Rather, the practice of monitoring and evaluation depends on the discretion of each policy implementing agency. For example, in the area of innovation, HCST and the National Centre for Innovation carry out policy evaluation, but the evaluation mechanisms and methodologies are not sufficiently transparent. A key challenge for Jordan's policy implementation agencies to exercise monitoring and evaluation is a lack of qualitative information received from investors. Jordan could further strengthen stakeholder engagement to assess gaps between laws and their implementation and identify key challenges that policy beneficiaries (e.g. investors, SMEs and workers) may face on the ground. The establishment of the Economic and Social Council in 2009 as an advisory body to the government on economic and social policies demonstrates strong commitment by the government to address this concern.

1.1.4. Improving policy coherence will be crucial to leverage FDI for sustainable development

Clear whole-of-government strategies and strong co-ordination mechanisms are the foundations for a coherent policy framework that can enable the contribution of FDI to the SDGs. The Government of Jordan, like many other governments, has advanced meaningful reforms to improve the investment climate, expecting that the developmental benefits of FDI would automatically follow. These benefits did not materialise as much as the government hoped for, however. Beyond a conducive investment climate, wider regulatory reforms and targeted policy support could help unleash the potential of FDI for sustainable development in Jordan.

Policy considerations for the policy framework on investment and sustainable development

- **Reassess existing restrictions on FDI, notably in service sectors, against public policy objectives of advancing the SDGs and achieving Vision 2025.** Restrictions on foreign ownership are prevalent in business services, distribution, transport and logistics, and tourism, sectors where FDI has high potential to generate economy-wide productivity gains, create low and high-skill jobs – including for young women – and support the low-carbon transition.
- **Pursue pro-competition reforms** to reduce “behind-the-border” barriers and the high cost of doing business, including labour cost. Competition in the product and labour markets will allow for a more dynamic and innovative private sector that enables labour mobility from the public to the private sector and to better absorb the gains (or adverse impacts) from FDI spillovers.
- **Address regulatory barriers deterring FDI benefits on specific sustainability outcomes.** This includes easing the process to establish a business, granting women's economic rights in the legislation, addressing labour market segmentations and improving collective bargaining rights, and facilitating access to land for renewable-power projects.
- **Design policies that can promote FDI benefits on gender equality, reducing carbon emissions, boosting productivity in tradable services and creating better quality jobs.** Adjusting the policy mix to adapt it to the changing patterns of FDI could help support the emergence of a more inclusive, greener and knowledge-based Jordanian economy.
- **Favour investment incentives related to sustainable development.** Continue streamlining tax incentives and opt for incentives related to sustainability criteria, such as companies' investment in R&D or training, while phasing-out incentives to sectors with declining productivity

or high carbon emissions. Periodically assess the relevance of incentives and provide more clarity and transparency on existing incentives, beyond those granted by the Investment Law.

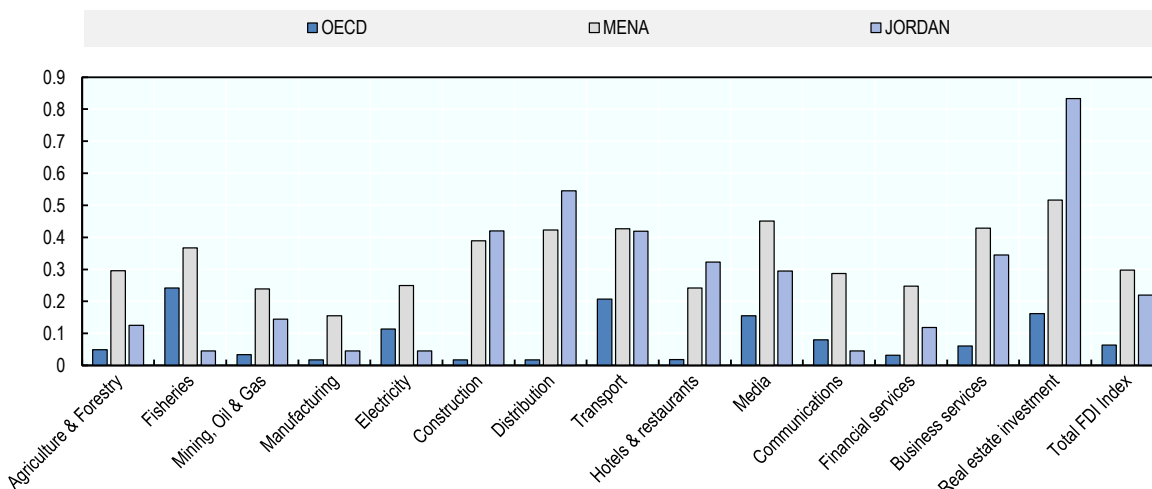
- **Raise awareness about sustainability standards and encourage companies to disclose their compliance with them.** Strengthening the capabilities of the Jordanian NCP by providing him with adequate human and financial resources to fulfil its mandate of, inter alia, promoting responsible business conduct and due diligence in supply chains. Encourage listed companies to disclose their ESG performance based on ASE' Guidance on Sustainability Reporting".

Business climate reforms can help unlock the sustainable development potential of FDI

Reform and opening of services could help achieve the key objectives of Jordan's Vision 2025 and other related national plans. Discriminatory measures on foreign investors' entry and operations deter FDI and, in turn, related direct and spillover gains for sustainable development. Reforms in Jordan have largely liberalised the manufacturing sector but many other service sectors remain partly off limits to foreign investors (Figure 1.7). Restrictions on full foreign ownership exist in business services, distribution, transports and logistics and tourism, services where FDI entry has a strong potential to generate productivity gains throughout the economy, stimulate labour demand and create high-skill jobs – including for young women – and support the low-carbon transition. Joint venture requirements in such sectors may also hinder foreign investors from deploying their most advanced (green) technologies or responsible business practices, in turn limiting knowledge transfers and the adoption of higher international sustainability standards by domestic competitors and suppliers.

Figure 1.7. FDI restrictions in service sectors can deter economy-wide gains from investment

Open to FDI = 0; closed to FDI = 1



Note: The OECD FDI Regulatory Restrictiveness Index covers statutory measures discriminating against foreign investors (e.g. foreign equity limits, screening and approval procedures, restrictions on key foreign personnel and other operational measures). Other important aspects of an investment climate (e.g. the implementation of regulations and state monopolies among others) are not considered.

Source: OECD FDI Regulatory Restrictiveness Index 2019-20.

In addition to restrictions on FDI, wider 'behind-the-border' domestic regulatory barriers limit business creation and innovation in Jordan and, in turn, can hamper the sustainable development impacts of FDI. Pro-competition reforms could help reduce the high cost of doing business in Jordan – for instance in the energy sector – and hence increase the country's competitiveness. Increased competition will also allow for a more dynamic private sector that can enable labour mobility and better absorb the gains from FDI

spillovers. Jordan Vision 2025 aims to enhance the ability of firms to grow and compete on a level playing field and the government has recently revised its competition policy to minimise market distortions. The government's reform agenda also aims to rationalise public sector hiring practices, which could increase the incentive for highly skilled Jordanians to work for the private sector.

Other regulatory barriers influence positively or negatively the impact of FDI on sustainable development in Jordan, but not to the same extent in the different sustainability dimensions. Barriers include, among others, lengthy steps to start a business and access to finance (SME productivity and innovation), legal barriers and loopholes preventing women from participating in the labour market (gender equality), high levels of wage-setting distortions, burdensome procedures to hire foreign talent and weak collective bargaining rights (job quality and skills development) and challenges in accessing land for renewable-power projects (reducing carbon emissions). The government has introduced important reforms in all these areas, yet further efforts would ensure that the wider regulatory framework is transparent and aligned with the government's goal of leveraging FDI as a tool to achieve the SDGs. Section 1.2 and subsequent chapters focus more on the regulatory barriers that hinder the benefits of FDI in specific sustainability outcomes.

Policies in place can be better aligned with Jordan's emerging challenges and opportunities

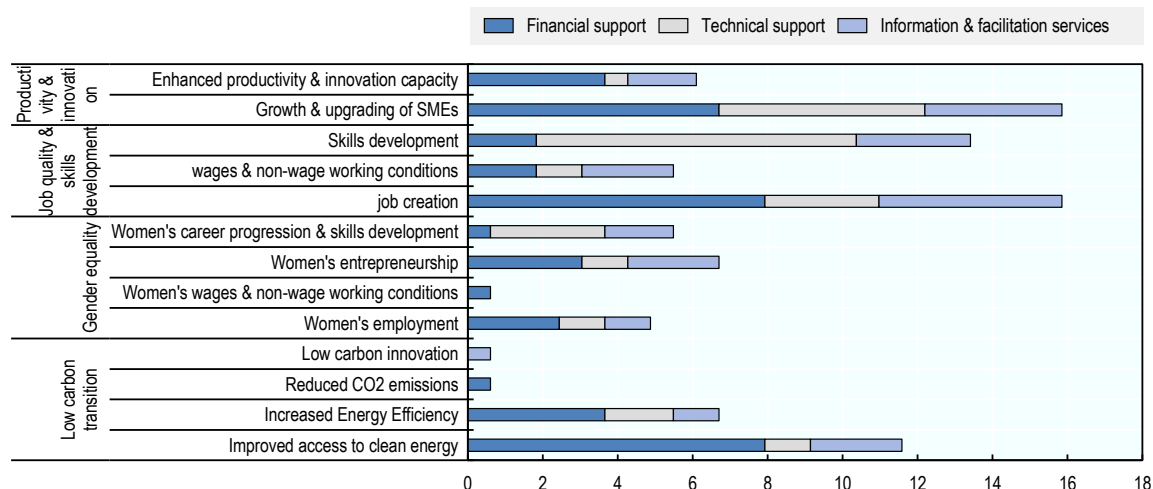
Targeted policies and measures can help governments act on specific sustainability outcomes of FDI. In Jordan, the policy mix reflects the country's most pressing priorities, as most policy instruments influence – directly or indirectly – the contribution of FDI to job creation and SME growth (Figure 1.8). This emphasis is coherent with Jordan's daunting needs of absorbing a young and growing labour force through private sector development. Policy interventions that enable the benefits of FDI also focus on incentivising private investment in the clean energy sector and on equipping workers with the right skills, although often only for lower-skilled jobs in the manufacturing sector.

Other sustainability dimensions appear to be less of a priority for the government, yet they are crucial to meeting the emerging challenges and opportunities facing the Jordanian economy. While general employment and skills development policies benefit both men and women, very few programmes specifically target increasing women's low labour market participation rates. Likewise, only few policies proactively support the benefits of FDI or limit its adverse impacts on reducing carbon emissions, boosting productivity and innovation in key services or creating better quality jobs. Private sector job creation in the manufacturing sector is central for Jordan, but adjusting the policy mix to adapt to changing patterns of FDI could help support the emergence of a more inclusive, greener and knowledge-based economy in which the tradable service sector plays a greater role.

Tax and financial incentives are the most widely used types of policy instruments across all sustainability dimensions. This is because most of them can affect several outcomes at the same time, for instance by incentivising investment in certain sectors or regions where development needs are high. Fiscal incentives – most often corporate income tax (CIT) exemptions or rate reductions – distort competition and are not always effective in inducing firms to promote sustainable development. While the 2014 Investment Law streamlined the legislative framework under which tax incentives are granted, and created a more cohesive set of measures, investment incentives are still widespread in Jordan and scattered across different laws (OECD, 2018^[7]). The government intends to streamline further investment incentives. It is currently working on a new incentives regime that removes provisions related to fiscal incentives from the Investment Law and consolidates them in one single law and under the Ministry of Finance responsibility.

Figure 1.8. Policy instruments influencing the impact of FDI on sustainable development in Jordan

Policy instruments by sustainability area (% of total)



Note: Every policy tool can influence several outcomes across and within the four sustainability areas. See (OECD, 2021^[6]) for the methodology.
Source: OECD elaboration based on the OECD FDI Qualities Mapping of Policies and Institutions of Jordan.

The government introduced a new reform in 2020 (Regulation N. 18 of 2020 on CIT Incentives in the Industrial Sector) that phased-out permanently reduced CIT rates in some manufacturing sectors and made tax reductions conditional on reaching specific outcomes related to job creation, gender equality, SME growth and regional development (Table 1.1). This recent reform of CIT incentives in the manufacturing sector could serve as an example to guide the ongoing revision of the tax incentives granted in the 2014 Investment Law and related regulations, which also cover the service sectors. The revision could opt for tax incentives related to similar sustainability criteria (job creation, gender, SME growth) and consider other criteria such as companies' investment in R&D or skills training, while phasing-out incentives to sectors with declining productivity or high carbon emissions.

Other incentives provide tax allowances and subsidies to investors meeting specific outcome conditions. When well-targeted, such incentives can enhance the impacts of FDI by attracting investors that do not foresee to make profits in the first years of activity. Financial support was introduced temporarily to mitigate the adverse impacts of the COVID-19 pandemic, for instance, such as Defence Order N.6 that provided wage subsidies to companies to limit job losses, subsidies that were strongly demanded by the foreign firms (Chapter 3). Overall, tax incentives or any other types of financial support that apply horizontally and do not target sectors but rather activities (e.g. R&D activity) are likely to generate fewer distortions. Furthermore, the government should periodically assess the appropriateness and relevance of tax and financial incentives and Mol should provide further clarity and transparency on the wide range of available incentives, beyond those granted by the 2014 Investment Law and related regulations.

Technical support to businesses and workers and, to a lesser extent, information and facilitation services are largely used in most dimensions of sustainability. These policies are crucial to strengthen domestic absorptive capacities and, in turn, better reap the benefits of FDI spillovers or mitigate their potential adverse effects. For instance, existing, albeit limited, sectoral training programmes in ICT can help reduce skills shortages in a high-growth sector where FDI may crowd out competitors unable to retain their talented staff. Information and facilitation services include, among others, FDI-SME matchmaking services and some awareness-raising initiatives on environmental or labour standards, helping companies to voluntarily disclose their compliance with them. In 2018, ASE developed a "Guidance on Sustainability Reporting" to encourage listed companies, among which many are foreign-owned, to report on their Economic, Social and Governance (ESG) performance. Reported information on ASE website is, however, limited.

Table 1.1. CIT incentives related to outcome conditions in the manufacturing sector in Jordan

CIT reductions in the manufacturing sector as of 2023 (year when the phasing-out of CIT reduction is over)

Outcome conditions	Performance criteria	CIT reduction in pharmaceuticals and garments (in percentage points, baseline: 20%)	CIT reduction in other manufacturing sectors (in percentage points, baseline: 20%)
Job creation	Increase Jordanian employment by 1% (2.5% if located in QIZs) from the baseline*	3.1	1.9
Gender equality	The share of Jordanian women is no less than 15% of total workforce (25% for garments firms in QIZs)	2.3	1.4
SME growth	SME selling at least 10% of its production and purchases at least 1% inputs on the domestic market	2.3	1.4
Less developed regions	Project located in a the less developed region	1.4	0.9
Greater Amman region	Project located in the Greater Amman region	0.9	0.6
	Maximum CIT reduction**	10 percentage points	6 percentage points

Note: * The baseline corresponds to the share of Jordanian workers in total workforce and varies across industries. QIZ: Qualified Industrial Zones. ** Companies get the maximum CIT reduction if they fulfil two or three criteria out of five (depending on the industry and the criteria).
Source: Regulation N. 18 of 2020 on Corporate Income Tax Incentives in the Industrial Sector.

As an adherent to the OECD Declaration on International Investment and MNEs since 2013, Jordan is mandated to establish a National Contact Point (NCP) to promote due diligence for responsible business conduct, covering aspects related to gender, environment, employment and industrial relations. The NCP, hosted by Mol (and previously by JIC), has been largely inactive (OECD, 2021^[2]).

Only a few policy instruments in Jordan provide regulatory incentives or impose requirements on investors with the stated objective of improving sustainability outcomes. Providing no or very few regulatory incentives to specific investors is desirable as derogatory legal regimes such as free or development zones distort competition and can become enclaves with lower labour or environmental standards, a risk that materialised in Jordan's QIZs, where working condition are difficult, although the government has recently been active in restoring better working conditions. Few regulations require companies to disclose their sustainability performance in the area of environmental sustainability. If well-designed, such regulations can be useful instruments to limit the adverse impacts of high-polluting FDI projects (Chapter 5).

1.2. Impacts of FDI and policy considerations by area of sustainable development

This section provides key findings and policy considerations by sustainability cluster, showing how FDI supports a specific aspect of sustainable development (i.e. productivity and innovation; job quality and skills development; gender equality; low-carbon transition) and what reform opportunities exist.

1.2.1. Policies for boosting FDI impacts on productivity and innovation

FDI was a key driver of aggregate productivity growth in Jordan in the 2000s but inflows of FDI have slowed considerably ever since. The bulk of FDI is concentrated in capital-intensive resource extraction and real estate, jointly accounting for more than 70% of total greenfield FDI. Jordan's labour productivity has been stagnant since the global economic slowdown in 2008, and ongoing conflicts in neighbouring countries

have cut off important trade corridors, leading to a significant drop in demand for Jordanian exports and a stark increase in energy prices. Reduced competitiveness in manufacturing has influenced foreign manufacturers to engage less in knowledge-based activities in Jordan. Due to this, as well as to the limited capacities of small and medium-sized enterprises (SMEs) (e.g. related to endowments of and access to strategic resources such as finance and infrastructure), foreign firms are engaging less in business linkages with domestic firms, further reducing the potential for knowledge and technology spillovers from FDI activity. Future growth and productivity are likely to occur in tradable services (e.g. finance, transport, ICT and wholesale and retail services), which have experienced relative stability in FDI inflows in recent years, and are less affected by high energy prices and water scarcity compared to manufacturing.

The productivity opportunity in services, including through foreign investment and linkages with SMEs, is recognised by the Jordan 2025 national strategy and supported by multiple strategic documents and action plans whose governance is entrusted to several state bodies at various levels. Councils at the highest level in Jordan could ensure that public and private institutions from all relevant policy areas and all stakeholder groups (including foreign investors) are represented (e.g. in the Investment Council) and have the chance to enrich policy making processes with their insights. At the policy implementation level, horizontal co-ordination and co-operation on investment, innovation and SME programmes could be also strengthened to ensure greater synergies and alignment of resources, policy objectives and actions across Ministries and implementing agencies. Joint programming is currently broadly absent.

Further opening services to FDI could support productivity growth, while at the same time supporting progress in other sustainability areas (Section 1.1). The current fairly open FDI market access regime in ICT services and electricity already involves important productivity opportunities for Jordan. Beyond FDI restrictions, there are several 'behind-the-border' regulatory elements (e.g. intellectual property rights protection, or competition and labour market policy) that influence investment in services; better assessing those would be possible through the inclusion of Jordan in the OECD Services Trade Restrictiveness Index (STRI). In the area of policy implementation, Jordan has made notable improvements but starting a business, dealing with construction permits and protecting minority shareholders rights remain key constraints for businesses. Streamlining the regulatory environment for SMEs would contribute to further improving the business climate and thus enabling SME productivity growth.

The mix of pro-active policies is skewed towards programmes that aim to strengthen the growth and upgrading of local SMEs, while less policy attention goes into enhancing productivity and innovation of the economy as a whole through FDI. Yet, efforts to consolidate Jordan's research and innovation ecosystem have intensified in recent years. Emphasis has been placed on increasing the financial support allocated for R&D and enhancing access to finance for innovative SMEs. Despite recent improvements in the availability of risk capital for entrepreneurs, more could be done to improve the provision of technical assistance, information and facilitation services to domestic firms that want to further develop their innovation and R&D capacities and serve as suppliers and partners of foreign affiliates. Furthermore, investment promotion policies are not conducive to attracting productivity-enhancing and R&D-intensive FDI. Jordan could reconsider the sectoral targeting of investment incentives away from manufacturing and more towards services and R&D-intensive activities with higher potential for productivity growth. The quality of investment facilitation and aftercare services could be also improved to help identify the sourcing needs of foreign investors and steer FDI projects towards locations with the greatest potential for supplier linkages and thus knowledge and technology spillovers on domestic firms.

Policy considerations to boost the impact of FDI on productivity and innovation

- **Consolidate the strategic framework for investment, productivity and SME development:** Strategies are introduced without cross-referencing those of other state bodies. Information on strategies could be centralised and made available online (including in English).
- **Ensure that all stakeholders are represented in policy discussions:** Councils at the highest level (e.g. the Investment Council) could further ensure that public and private institutions from all relevant policy areas – i.e. investment, innovation and SME development – and all stakeholder groups (including foreign) are represented.
- **Strengthen co-ordination and co-operation among policy implementation agencies:** Joint programming is currently broadly absent among the Jordan Investment Commission, Jordan Enterprise Development Co-operation and the National Centre for Innovation.
- **Continue reforming and opening services:** Services liberalisation would support productivity objectives defined in Jordan’s Vision 2025 strategy and strengthen productivity in other sectors, including manufacturing. The inclusion of Jordan in the OECD Services Trade Restrictiveness Index would allow identifying reform opportunities for ‘behind-the-border’ regulatory aspects.
- **Target investment incentives in sectors with higher potential for productivity growth:** Jordan could reconsider the targeting of investment incentives away from manufacturing and more towards services with higher potential for productivity growth or R&D- and skill-intensive activities.
- **Improve the quality of investment facilitation and aftercare services to strengthen FDI spillovers on SME productivity and innovation:** Investment facilitation and aftercare can be instrumental in encouraging foreign affiliates to identify and collaborate with local SME suppliers. Jordan could consider increasing the focus of FDI policy on the potential for supply chain development, and ensure that supplier development programmes are aligned with the needs and priorities of foreign investors.
- **Improve support services for SMEs to strengthen their absorptive capacities:** Jordan could facilitate access to finance and improve the quality of technical assistance, information and facilitation services provided to Jordanian SMEs. This could help SMEs develop their innovation and R&D capacities and narrow performance gaps with foreign affiliates.

1.2.2. Policies for enhancing the impact of FDI on job quality and skills development

The Government of Jordan has high expectations that FDI can support quality job creation and skills development. The employment rate is low by international standards, with many people in informal and low-paid jobs, and many young graduates unemployed, particularly women. Insufficient job creation through private investment, combined with an increasing labour force and considerable skills imbalances, are the main challenges facing the labour market in Jordan – challenges that the influx of Syrian refugees and the COVID-19 pandemic have exacerbated. The public sector is no longer absorbing a large number of new graduates, unlike in the pre-2000s period, while the private sector often offer less attractive working conditions, thereby limiting high-skill labour mobility from public to private sector jobs.

FDI in Jordan has advanced job creation, improved living standards and developed workers’ skills, but its impact has been limited and not all segments of the population have benefited. Over the last two decades, employment gains from FDI were largest for foreign workers in low-wage sectors such as construction, manufacturing or tourism and, since recently, for the higher-skilled Jordanians working in better-paid

sectors like ICT or finance. Despite improving educational attainments, inconsistency between curricula and evolving employers' needs are preventing Jordan from reaping the benefits of FDI, including services FDI that digitalisation and recovery from COVID-19 are likely to boost. Labour market gains from FDI remain off limits to low and medium-skilled Jordanian job seekers, who do not always have the incentives or skills to compete with foreigners on low-wage jobs in sectors with challenging, albeit improving, working conditions such as the apparel or chemicals industries – the country's top export sectors.

Coordination on investment, employment and skills development exist at strategic levels – for instance through the Investment Council – but less across implementing agencies. The fact that the Minister of Labour sits in the Investment Council is a strong signal of the government commitment to policies that enhance the impact of FDI on labour outcomes. It is also particularly relevant as MoI oversees the Free and Development Zones where FDI is prevalent and foreign labour is abundant. Co-ordination between MoI and implementing agencies providing employment and training support is weaker and joint policy programming nearly inexistent. Involving MoI in the work of relevant skills development bodies such as the newly established Sector Skills Councils could be useful as the agency promotes investment in the same sectors and could bring forward its sectoral expertise and voice the concerns of the foreign investors in terms of skills shortages and training needs.

The government could advance product and labour market reforms that support FDI to create jobs for the highly skilled workers while protecting those at risk of losing their work. Restrictions on foreign ownership exist in business services, distribution, transport and tourism, sectors where FDI has the potential to create jobs for both low and highly skilled Jordanians. Pro-competition reforms to develop a competitive private sector and limit the distortion created by public sector could support labour mobility of highly skilled workers. Labour market regulations in Jordan are not a major constraint for the private sector and recent reforms raised minimum labour standards, but further efforts are needed to level the playing field in working conditions among Jordanians and non-Jordanians and between firms in Free and Development Zones and those outside. Strengthening collective bargaining rights and workers' voice can particularly help ensure that all workers benefit from FDI by supporting collective solutions to emerging issues and conflicts.

Product and labour market reforms are, however, not enough for FDI to deliver quality jobs. Targeted policies in Jordan aims at stimulating labour demand by attracting investment in priority sectors, locations and occupations and at increasing the supply of adequate skills. Fewer policies pursue the objective of improving wages and non-wage working conditions. If well-implemented, these proactive policies can cushion or amplify FDI spillover on the Jordanian labour market. Policies and programmes are, however, skewed towards Jordanians with medium to low skills in the manufacturing sector. Adapting the policy mix to also target graduates and highly skilled workers in growing service sectors will help Jordan meet the challenges that automation, digitalisation and trade – all accelerated by FDI – impose on its labour market.

Policy considerations to boost the impact of FDI on job quality and skills development

- **Align strategies and reforms on investment, employment and skills development**, including the revision of the 2014 Investment Law and the forthcoming investment promotion and employment strategies, with priority sectors of Vision 2025 and other national plans, particularly high-wage, high-skill and labour-intensive sectors. Strategies should provide clear policy directions on how FDI can improve labour market outcomes, set explicit goals and clarify responsibilities across government bodies.
- **Strengthen inter-governmental co-ordination and promote joint policy initiatives.** The Investment Council could take a more proactive role to ensure strategic alignment across investment, employment and skills development policies – the presence of the Minister of Labour in the Council should help achieve some policy coherence. At the implementation level, improve co-ordination between Mol and main government bodies delivering employment services and training support and promote joint policy programmes across agencies.
- **Reassess existing restrictions on foreign investment against policy objectives of stimulating labour demand, particularly in the job-creating services sectors.** Statutory restrictions on foreign ownership exist in business services, distribution, transport and logistics, and tourism sectors where FDI projects have the potential to create direct and indirect jobs for both the low and highly skilled Jordanian youth.
- **Pursue labour market reforms that are conducive to investment and labour mobility and that promote a better working environment.** This includes addressing wage-setting distortions (e.g. different minimum wages), simplifying regulations on the hiring of foreign labour and strengthening collective bargaining rights to increase labour market integration, promote mobility from public to private sector jobs and reduce informal employment.
- **Improve investment promotion and facilitation** by providing clear information to investors on labour market characteristics, labour regulations, training programmes and employment incentives and accompany them in getting the relevant work permits. Furthermore, set key performance indicators to identify and prioritise investments that create quality jobs.
- **Raise awareness about international labour standards and incentivise companies to disclose their compliance with them** by reactivating the NCP and help it fulfil its mandate of, inter alia, disseminating guidance to MNEs on labour standards and due diligence in supply chains. Encourage companies listed in the Amman Stock Exchange (ASE) to disclose their ESG performance, including on labour, based on ASE's Guidance on Sustainability Reporting.
- **Provide integrated active labour market policies that are adapted to investors' needs while supporting the most vulnerable.** This includes upskilling the educated youth while retraining vulnerable groups working in sectors adversely affected by competition, providing more targeted job search services, including transport subsidies, and increasing their outreach, and favouring tax incentives based on companies' labour market performance and promoting the transition of young graduates to a first-work experience.
- **Establish robust labour market information and skills anticipation systems that involve investment actors** to design evidence-based employment or training policies and effectively monitor their impacts. Mol could bring forward its sectoral expertise to the Sector Skills Councils and voice the concerns of investors in terms of skill shortages and future training needs.

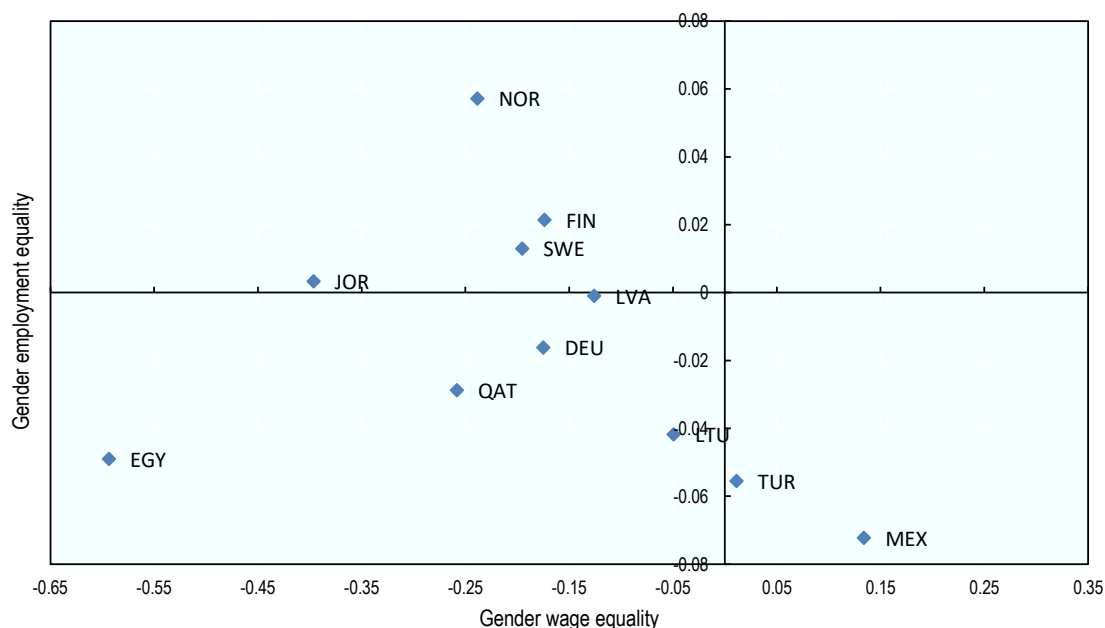
1.2.3. Policies for improving FDI impacts on gender equality

Jordan has made considerable strides in terms of women's economic inclusion, but major challenges remain and some have been exacerbated by the COVID-19 pandemic. Despite significant progress in female education, few women still participate in the labour force. The female participation rate is among the lowest in the world, at only 14%, and the gender pay gap is high even when taking into account factors such as education, age, working time status, and sector. Women work mainly in the service sectors, particularly education, health and social care, and in low value-added manufacturing industries. A significant proportion of women, about 37%, are in the public sector. Social and cultural norms hinder women's economic participation in all professions, including entrepreneurship. Female refugees face even harsher working conditions, as they are often employed in informal jobs.

FDI can contribute to greater gender equality in the labour market of host countries. Over the past two decades, the majority of FDI in Jordan has been directed to male-dominated sectors, such as energy (oil and gas), construction and business services. Gender pay gaps in those sectors, however, are lower than in other sectors (Figure 1.9). Manufacturing industries that employ significant proportions of women, particularly garments and textiles, have received less and, since 2008, declining amounts of greenfield FDI. Moreover, foreign companies are not more gender inclusive than domestic companies. They employ higher proportions of women on average, but are less likely to have female top managers or owners. Working conditions in Qualifying Industrial Zones (QIZs), where many foreign textile and garment companies operate, are also described as difficult, especially for female migrants. Jobs in the zones tend to be labour-intensive, low-paid and offer few prospects for professional growth. Business linkages between foreign and domestic firms are significant in some female-dominated sectors such as garments, but evidence shows that those linkages have not led to job creation in the local labour market.

Figure 1.9. Greenfield FDI is associated with lower gender employment quality but higher gender wage equality in Jordan

Is FDI positively associated with gender employment/wage equality? >0, yes; <0 no



Note: Gender employment equality is measured by the share of female employees in total employees. Gender wage equality is measured as the ratio between the average monthly wages of women and men. Data refer to 2019. This figure shows a scatter plot between two Type 2 FDI Qualities indicators. See Annex B of OECD (2019) for a description of the methodology.

Source: OECD elaboration based on Financial Times' fDi Markets database; ILO and UN National Accounts.

Improving the inclusion of women in the country's economic life is a policy priority for Jordanian policy makers, highlighted in several national plans and strategies, such as the National Strategy for Women 2020-25, the Action Plan for Women's Economic Empowerment 2019-24 and the Employment Strategy 2011-20. These objectives are in line with Jordan's ambition to become a prosperous, sustainable and inclusive economy where all citizens, including women, can benefit from economic growth, as described in its national development plan, Vision 2025. These objectives are also indirectly supported by its investment promotion strategy, which emphasises the importance of attracting foreign investment that creates quality jobs but are not explicitly mentioned. These national strategies and plans are not always developed in a co-ordinated manner, however. Moreover, continuity of and access to these strategies are not always guaranteed.

The governance framework influencing the impacts of FDI on gender equality in the labour market involves many actors, operating in areas such as investment, entrepreneurship, labour market and education. They include ministries and their implementing agencies, independent agencies, such as the Jordanian National Commission for Women and Mol, and various private and non-profit entities. Several mechanisms exist to ensure co-ordination between governmental actors, such as gender units in relevant ministries or the National Contact Point for RBC in Mol. For some of these co-ordination platforms, however, the scope of action and resources are unclear.

Several reforms implemented in the last decade have significantly improved the policy framework that allows for a positive impact of FDI on gender equality. Yet, challenges remain in several areas. FDI restrictions are high in some services sectors with high employment potential for women, such as hotels and restaurants, information and communication, and financial services. Recent reforms of the Labour Law and of the Social Security Law have addressed important gender equality gaps in the labour market. Nevertheless, legal barriers to women's economic participation remain in areas related to maternity leave, the workplace and inheritance issues.

Jordan has several policy initiatives in place to support gender equality in the labour market. Some of these policies directly leverage domestic and foreign private investment, such as tax incentives granted to manufacturing companies that employ at least 15% of Jordanian women. Financial incentives (e.g. grants and loans) and training and skills development programmes are the main policy instruments used by these initiatives. The lack of monitoring and evaluation systems for these policies and programmes makes it difficult, however, to provide an assessment of Jordan's overall policy approach. Finally, Jordan has ratified major international agreements on women's human rights and signed several trade agreements with gender provisions. These international commitments have been important in advancing Jordan's domestic gender equality reforms.

Policy considerations to improve FDI impacts on gender equality and women's empowerment

- **Improve the co-ordination, continuity and accessibility of strategic planning for gender equality and investment.** Strategies in relevant policy areas should be designed in a more co-ordinated way. They should be developed with more continuity and made easily accessible, e.g. through a common platform in English.
- **Strengthen co-ordination between relevant governmental actors to improve the integration of gender objectives in labour market, entrepreneurship and investment policies.** The network of gender units in relevant ministries could be expanded and the role of the NCP, hosted by Mol, should be reinforced.

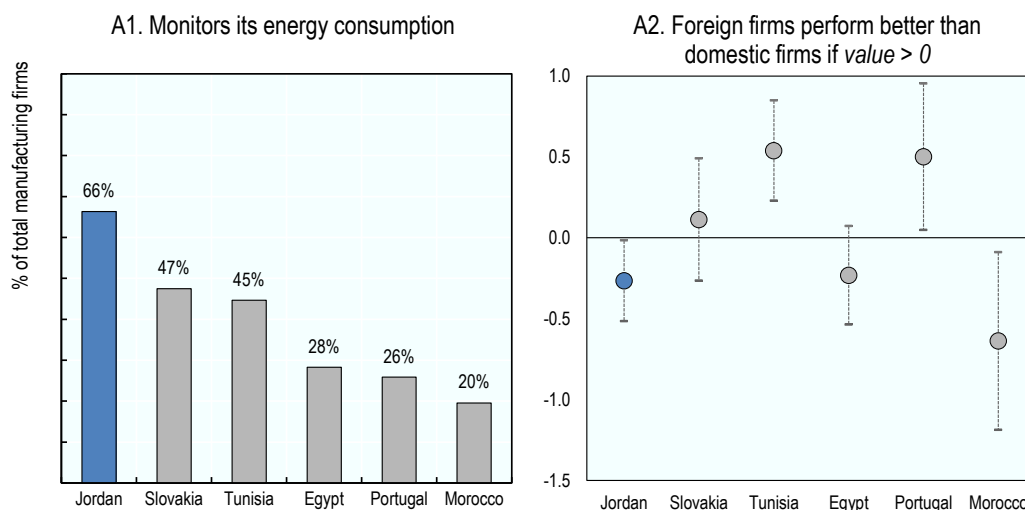
- **Introduce a system of monitoring and evaluation would improve the effectiveness and co-ordination of policies to support women’s economic integration.** Jordan has several policy initiatives to support women’s economic integration, but the impact of these policies and if and how they are co-ordinated is unclear.
- **Reduce restrictions on FDI and foreign personnel in some service sectors could unlock jobs for women.** Restrictions on FDI are higher than in the OECD area in some service sectors such as hotels and restaurants and financial services. In addition, restrictions on foreign personnel affect sectors such as ICT, energy and professional services. These sectors tend to employ many women globally.
- **Advance labour market reforms to close gender gaps and enhance the positive impact of FDI on women.** Despite recent reforms, important legal barriers to women’s economic participation persist in domestic legislation in areas such as maternity, sexual harassment at work and inheritance.
- **Improve initiatives to support female entrepreneurship to help women – owned/led businesses to connect with foreign firms.** Programmes to help women-owned/led enterprises connect with foreign companies could help them expand. Strengthening domestic-foreign linkages in sectors dominated by women could also lead to job creation for women.
- **Increase information and facilitation programmes to overcome social and cultural barriers that prevent women from working in foreign MNEs.** Information campaigns to inform communities and families about working conditions and policies to improve women’s security could induce more women to work, including for foreign companies.

1.2.4. Policies for improving FDI impacts on carbon emissions

Carbon emissions in Jordan continue to rise, albeit at a diminishing rate, driven predominantly by the largely oil-fuelled energy and transport sectors. As the technological barriers to further electrification and decarbonisation of these sectors are falling rapidly, the private sector, and foreign investors specifically, can profitably cater to these investment needs. Over the last decade, foreign investment projects have been negligible in the transport sector, and largely dominated by fossil fuels in the energy sector. More recently, FDI has started to shift away from fossil fuels and into clean energy sources. Accelerating this shift is critical for diversifying energy sources, reducing reliance on fossil fuel imports and improving energy security, and will at the same time help advance Jordan’s low-carbon transition.

The low-carbon transition requires greening of investments beyond the energy sector. There is evidence that foreign firms may be responsible for over 50% of oil consumed in manufacturing. Moreover, according to the FDI Qualities Indicators, foreign investors in Jordan underperform in terms of green business practices, particularly when it comes to tracking energy use and emissions, and implementing measures to reduce emissions (Figure 1.10). This suggests that there may be little scope for positive spillovers from foreign to domestic firms, when it comes to greening business practices and improving the climate impacts of private investment. Even if foreign firms were to outperform domestic firms in terms of climate impacts (which there is currently no evidence of), the opportunities for influencing the business practices of domestic suppliers is somewhat limited, given to the limited extent of local supply chain linkages.

Figure 1.10. Foreign firms in Jordan perform poorly in terms of green business practices



Note: Panels A and C reflect all firms, while Panels B and D show the percentage differences across foreign and domestic firms (circle) and the 95% confidence intervals around such differences (line).

Source: OECD based on World Bank Enterprise Surveys (2021).

The Government of Jordan has made green growth a top national priority, and demonstrated its commitment to transition towards a green economy through various multi-year strategies and plans, resulting in a series of reforms and proactive policies to support decarbonisation and the green growth agenda. Several reform programmes implemented in the last decade have played an important role in levelling the playing field for foreign investors in low-carbon technologies. These include the unbundling of the power sector to increase competition in power generation and distribution, which has created more space for private investment in renewable energy; and the phasing out of energy subsidies and the resulting price distortions that give rise to over-investment in carbon-intensive activities. While these reforms are a crucial first step to influencing the carbon characteristics of FDI entering the country, greater efforts could be made to align the green growth agenda with the investment promotion strategy and to clarify the role of private investors in advancing low-carbon targets more explicitly and specifically.

Additional policies to stimulate low-carbon investments primarily include measures that seek to expand renewable energy generation capacity, and to promote energy savings and increase energy efficiency of economic activities. The most commonly used policy instruments are a variety of financial and fiscal incentives for investments that achieve these targets. These financial and fiscal incentives are however not advertised on Mol's website, which raises questions as to whether foreign investors are aware of them. Greater co-ordination between the main implementing institution, the Ministry of Energy and Mineral Resources, and Mol to ensure that available financial incentives are included in promotional material published by Mol may raise the effectiveness of these instruments in attracting low-carbon investments. Other programmes include information campaigns designed to raise awareness among consumers about the emissions characteristics of energy companies, and training programmes designed to promote career opportunities related to low-carbon technologies. Such initiatives enhance the attractiveness of Jordan as a destination for low-carbon investments, and raise the potential for low-carbon spillovers from foreign to domestic firms.

Policy considerations to improve the impact of FDI on carbon emissions

- **Ensure high-level alignment and co-ordination across investment and climate policy makers.** Jordan has made a visible effort to consolidate its many national strategies and action plans relating to climate change into a single cross-sectoral framework for green growth under the oversight of a cross-ministerial steering committee. To ensure greater alignment with the Investment Council's priorities, there may be scope for involvement of the Ministry of Energy and Mineral Resources within the Investment Council.
- **Align the national green growth framework with the investment promotion strategy and clarify the role of private investors in achieving green growth outcomes.** Greater efforts could be made to clarify where private investment will be most crucial, and link the identified green growth priority actions to private investment opportunities identified and promoted by Mol. An updated investment promotion strategy should ensure that investment opportunities in renewables are considered on a proactive rather than reactive basis by Mol.
- **Streamline and unify licensing and registration procedures for renewable projects under one authority.** Several institutions are involved in the administrative and licensing procedures for renewable-energy investments. Mol's one-stop shop facilitates licensing procedures for all types of investment; Mol also provides licences to free zone investors, some of which target renewable power generation; however, the main licence that a renewable project developer must obtain is a power-generation licence delivered by the electricity regulator (EMRC). Streamlining and unifying these licensing procedures under one authority can help decrease the transaction costs associated with renewable energy investments.
- **Consider replacing local content requirements on solar and wind components, with targeted incentives for industrial development.** The local content requirements on solar photovoltaics and wind turbines are at odds with Jordan's relatively limited manufacturing capacity of related components. Such discriminatory measures are likely to discourage foreign investments in downstream solar and wind power generation. Instead, the government could provide targeted incentives for specific solar and wind components that are not yet manufactured locally.
- **Consider transitioning from a single buyer electricity model to a well-designed wholesale market for electricity.** The government should consider enabling the three main electricity distributors to purchase electricity directly from the producers at market prices, in order to level the playing field for foreign investors in renewable power. Gradually transitioning to a well-designed wholesale market for electricity could further enhance the ability of the power sector to accommodate high shares of renewable energy, and accelerate Jordan's energy transition.
- **Streamline the land acquisition and land lease process.** Policymakers could create a database of government lands available for renewable projects, and facilitate land acquisition procedures through a central office to reduce transaction costs for investors. The government could further identify available private lands, and provide lenders with a mechanism to ensure that leases of land with multiple private owners can be efficiently concluded.
- **Link investment promotion efforts to low-carbon objectives.** Mol could consider further tailoring its investment promotion material and activities to target low-carbon investors across the six green growth priority sectors, with particular emphasis on investment opportunities related to electrification of road transport, and energy saving opportunities in tourism and industry. There may also be scope for linking investment promotion efforts to incentives or requirements related to monitoring and reporting of energy use.

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2 Boosting FDI impacts on productivity and innovation

This chapter assesses productivity trends and the potential of FDI to enhance productivity and innovation performance in Jordan. Building on the stocktaking of Jordan's competitive edge, the chapter presents the governance framework and policy mix that supports investment impacts on productivity – focusing on institutional arrangements and policies at the intersection of investment, innovation and SME development. The chapter applies the forthcoming OECD FDI Qualities Policy Toolkit (cluster on productivity and innovation).

2.1. Summary

Foreign direct investment (FDI) was a key driver of aggregate productivity in Jordan in the 2000s but inflows of FDI have slowed considerably ever since. The bulk of FDI is concentrated in the capital-intensive energy and real estate sectors, jointly accounting for more than 70% of total greenfield FDI. Jordan's labour productivity has been stagnant since the global economic slowdown in 2008, as well as ongoing conflicts in neighbouring countries that have cut off important trade corridors, led to a significant drop in demand for Jordan exports and a stark increase in energy prices. Reduced competitiveness in manufacturing influenced foreign manufacturers to engage less in knowledge-based activities in Jordan. Due to this as well as the limited capacities of small and medium-sized enterprises (SMEs) (e.g. related to access to strategic resources such as finance and infrastructure), foreign firms are engaging less in business linkages with domestic firms, further reducing the opportunities for productivity spillovers. Future growth and productivity are likely to occur in tradable services (e.g. finance, transport, ICT and wholesale and retail services), which have experienced relative stability in FDI inflows in recent years and are less affected by continuous high energy prices and water scarcity compared to manufacturing.

The productivity opportunity in services, including through foreign investment and linkages with SMEs, is endorsed by Jordan's vision 2025 for sustained social and economic growth and is supported by multiple national strategies whose governance is entrusted to several state bodies at various levels. However, at the implementation level, investment attraction efforts have not been focused on FDI projects with the greatest potential for productivity growth and innovation so far.

This chapter assesses Jordan's competitive edge and future opportunities for FDI to positively impact productivity and innovation in Jordan. It then evaluates the governance framework and policy mix that support the positive impact of investment on productivity – focusing on institutional arrangements and policies at the intersection of investment, innovation and SME development. Key policy considerations are summarised below.

Policy considerations

- **National strategies linking investment, productivity and SME development policy issues could be further aligned and continuity of strategic orientations ensured.** Strategies are introduced without cross-referencing those of other public institutions. Some sectoral strategies have reached the end of their applicability and have not yet been renewed. Information on strategies and plans could be centralised and made available online (including in English).
- **Policy co-ordination across the investment, innovation and SME development policy areas does take place in Jordan;** but high-level government councils could further ensure that public and private institutions from all relevant policy areas – i.e. investment, innovation and SME development – and all stakeholder groups (including foreign) are represented. Roles and mandates of various higher level horizontal co-ordination bodies, which are putting development strategies in place, could be clarified.
- **At the policy implementation level, horizontal co-ordination and inter-agency co-operation on investment, innovation and SME support programmes could be further promoted.** Joint programming is broadly absent. On the other hand, vertical co-ordination mechanisms across levels of government are fairly well-established – e.g. as an investment promotion agency, the Ministry of Investment (MoI) is well-placed to transmit investor concerns to the Investment Council and can thereby provide important inputs to policy reforms at higher levels.

- **Removing regulatory restrictions to services would support the economic growth objectives defined in Jordan's vision 2025 strategy, and contribute to productivity growth in other sectors, including manufacturing.** Services liberalisation lags behind reform processes in other sectors. Beyond FDI restrictions, there are several 'behind-the-border' regulatory aspects (e.g. intellectual property rights protection, as well as competition and labour market policy) that are influencing investment in services. The inclusion of Jordan in the OECD Services Trade Restrictiveness Index would allow to identify specific reform opportunities in these areas.
- **Jordan could consider enhancing the sectoral targeting of investment incentives to attract FDI in sectors with higher labour productivity (e.g. services) and in R&D- and skill-intensive activities,** which can be supported by its increasingly skilled workforce and significantly internationalised SME sector. Investment attraction efforts have not been focused on FDI projects with the greatest potential for productivity growth and innovation so far. There is also a disconnect between investment promotion and innovation policies due to Jordan's relatively nascent research and innovation support ecosystem, and the mandate of MoI, which does not cover innovation promotion.
- **Streamlining the regulatory environment for SMEs could contribute to further improving the business climate and thus enabling SME productivity growth through FDI spillovers.** Jordan has made notable improvements in its business climate by issuing new regulations and streamlining others. Starting a business, dealing with construction permits and protecting minority shareholder rights remain key constraints for businesses in Jordan however. The planned new law on SMEs could help consolidate the regulatory environment in Jordan.
- **Facilitating access to finance and improving the quality of technical assistance, information and facilitation services provided to Jordanian SMEs could help them develop their innovation and R&D capacities and narrow performance gaps with foreign affiliates.** The role and mandate of the recently established National Centre for Innovation (NCI) could be clarified vis-à-vis other institutions involved in the implementation of innovation policies to prevent duplication of services.
- **Investment facilitation and aftercare services could be improved and aligned with policy efforts to build value chain linkages between foreign and domestic firms.** Policies supporting SME supply chain development appear to be disconnected from investment facilitation and aftercare activities. The lack of policy co-ordination between the investment promotion and SME agencies can also increase information barriers and undermine efforts to align domestic SME absorptive capacities with the needs of foreign investors.

2.2. Productivity trends and challenges in Jordan

Productivity reflects a country's stage of economic development, and its resulting competitive edge and economic structure. As an economy develops, its structure typically shifts from agriculture, to light manufacturing, to heavier manufacturing, and eventually to high technology manufacturing and services, reflecting increasing levels of productivity and innovation capacity. While productivity varies considerably across sectors, different value chain functions within sectors and the efficiency to conduct such activities involve varying levels of labour and capital intensity and thus productivity levels. Enhanced productivity and innovation are closely tied to better-paid and more stable jobs and greater human capital and skills (Chapters 3 and 4). Productivity and innovation capacity are also closely tied with the transition towards a low-carbon economy (Chapter 5).

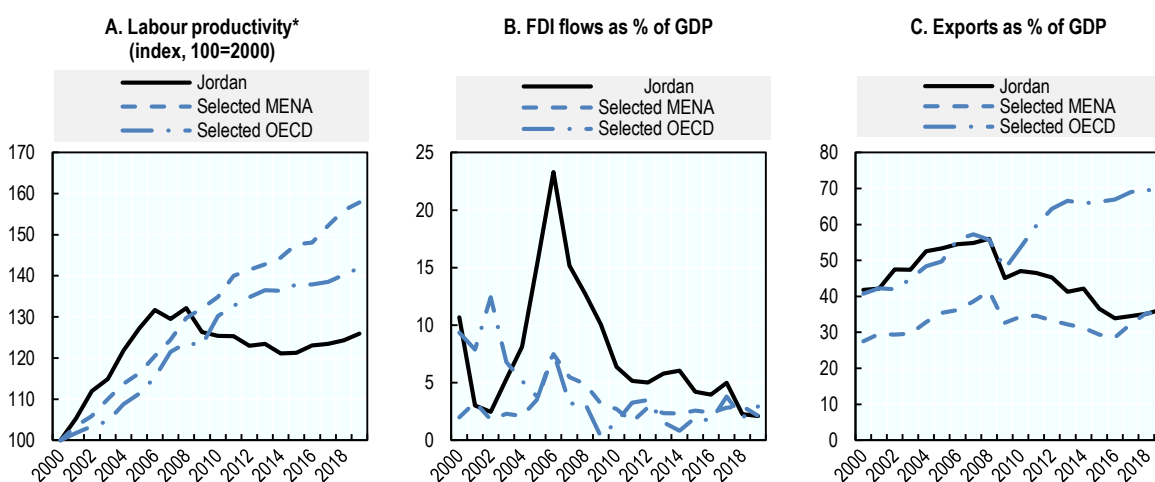
2.2.1. Jordan's labour productivity has been stagnant in recent years

In the decade prior to the 2008 global financial crisis, labour productivity in Jordan accelerated faster than in peer countries such as Egypt, Morocco and Tunisia in the MENA region, and Portugal and the Slovak Republic in the OECD region (Figure 2.1, Panel A).¹ Aggregate labour productivity improved by 30% between 2000 and 2006 in Jordan, compared to 20% in selected MENA and 10% in selected OECD countries. Productivity growth was enabled by an impressive period of macroeconomic performance (OECD, 2021^[1]), with a sharp increase of FDI and a boost in exports of goods and services (Figure 2.1, Panel B and C). FDI inflows increased seven-fold over 2003 and 2006, corresponding to an increase from 5% relative to GDP in 2003 to almost 25% in 2006. Manufacturing, real estate and construction received most FDI during this period and have driven economic growth and productivity (Hausmann et al., 2019^[2]). The United Arab Emirates (UAE), Bahrain, Saudi Arabia and Kuwait accounted for 50% of total FDI. Exports increased three-fold over the same period. Exports as a share of GDP increased from 40% in 2000 to 55% in 2008. Jordan's garment, agriculture and chemical sectors have most significantly expanded global market shares, indicating raising competitiveness of these sectors in the 2000s.

A series of negative external shocks affected Jordan's productivity and competitiveness in the late 2000s and the following decade – more than in peer economies. Over 2008-14, labour productivity fell to levels seen in the early 2000s and have since stagnated (Figure 2.1, Panel A). Besides the global economic slowdown due to the 2008 global financial crisis, conflicts in neighbouring countries have cut off important trade corridors and led to a significant drop in demand for Jordan exports (OECD, 2021^[1]). The share of exports in GDP dropped from 55% to 30% over 2008-16 and has since stagnated (Panel C). FDI also fell considerably to less than 5% of GDP between 2010-19 compared to an average above 12% in the previous decade (Panel B). Conflicts in neighbouring countries provoked massive inflows of migrants and refugees, increasing Jordan's population by 50% over 2008-17, putting further pressure on the economy. External instability also increased the cost of energy imports during a period of already expensive energy prices, making electricity-intensive manufacturing a less competitive activity in Jordan (Chapter 5).

In contrast, Jordan's peers have continued to improve productivity during the past decade. MENA comparators have improved productivity, on average, by 25% over 2008-19 (Figure 2.1, Panel A). Productivity growth in Portugal and the Slovak Republic has slowed during the post crisis recovery but remained positive; productivity levels were 15% higher in 2019 compared to 2008. Export shares in GDP also expanded further during this period: starting at Jordan's level (55%) in 2008, Portugal and the Slovak Republic now report export shares in GDP of 70%. They received important FDI inflows in efficiency-seeking manufacturing during the 2008 crisis recovery (OECD, forthcoming^[3]; 2022^[4]).

Figure 2.1. Labour productivity, FDI and export trends in Jordan and its peers



Note: *Labour productivity = value added per person employed in constant USDs; Selected MENA = Egypt, Morocco, Tunisia; Selected OECD = Portugal, the Slovak Republic.

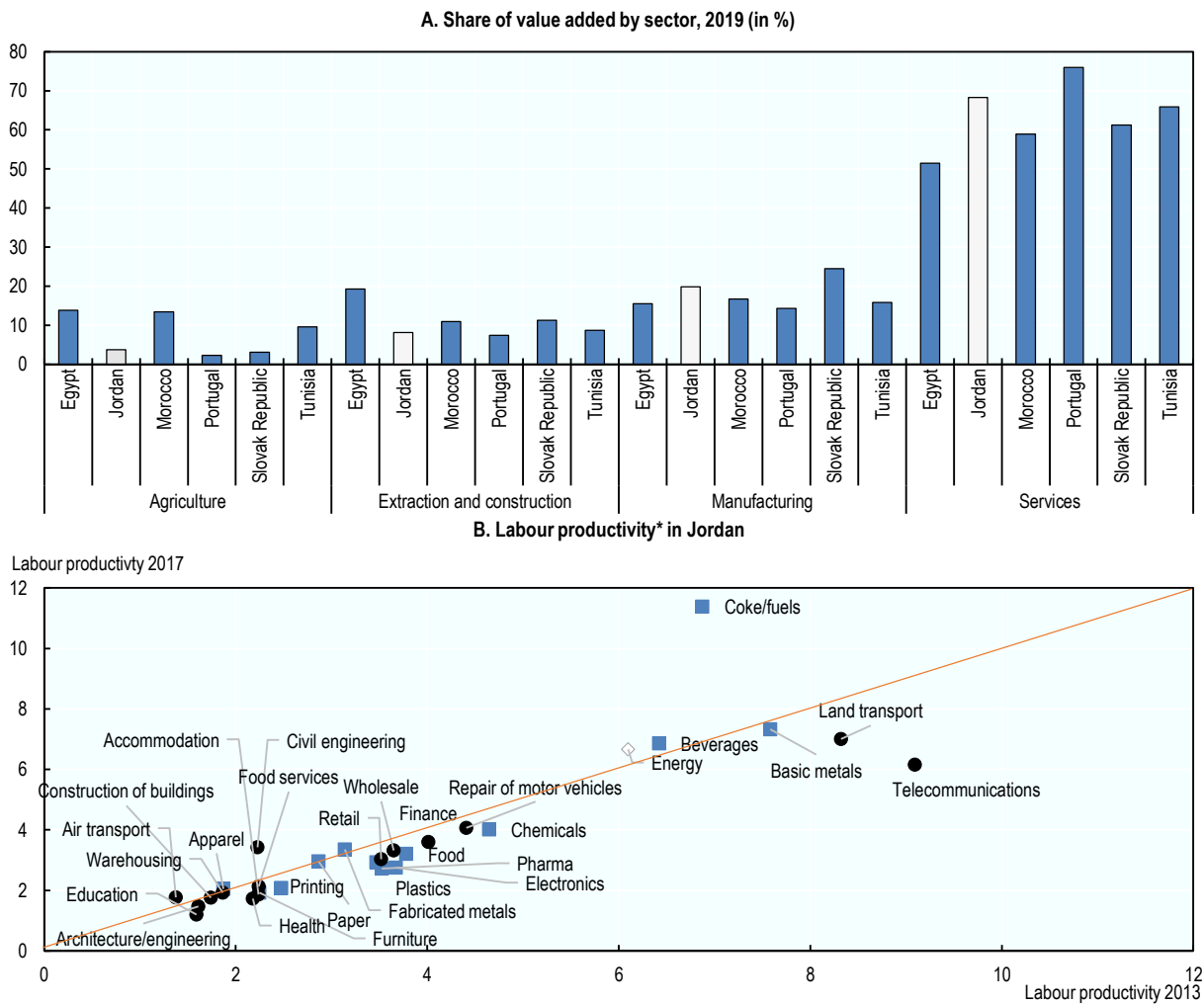
Source: OECD calculations based on World Bank's World Development Indicators (Panel A and C) and UNCTADStats (Panel B).

2.2.2. Jordan has a large but relatively low productivity services sector

Jordan's economy today is driven largely by services, comparable with some other countries in the region and OECD economies (Figure 2.2, Panel A). In recent years economic growth and exports have been driven in large part by services such as real estate, finance, transport, ICT and wholesale and retail services, compared to growth in the 2000s which was driven primarily by manufacturing exports (Hausmann et al., 2019^[2]). Jordan's economic structure is comparable with that of Morocco and Tunisia within the MENA region and Portugal and the Slovak Republic within the OECD. The services sector is larger than in MENA comparators and is responsible for almost 70% of GDP, compared to shares of around 60% in Morocco and 50% in Egypt. The contribution of agriculture to aggregate value added in Jordan is at less than 5%, comparable with that in Portugal and the Slovak Republic, while agriculture remains somewhat more important in its MENA peers (at least 10%).

The relatively strong growth performance in some services over the past decade has not contributed to improved labour productivity in Jordan (Figure 2.2, Panel B). Measuring labour productivity as value added per USD spent on labour compensation reveals that, unlike in other economies, many services activities in Jordan are less productive than low technology manufacturing such as furniture, paper and plastics production.² This applies not only to lower paid services such as construction, warehousing or tourism (accommodation, food services) but also to typically highly advanced and better paid services such as architecture, engineering and finance. Moreover, most services and manufacturing activities in Jordan saw stagnant or slightly decreasing labour productivity levels over 2013-17 (many sectors are positioned below the 45-degree line in Panel B). Productivity levels in Jordan's services, industrial and primary sectors compete with those of peers in MENA countries, but labour productivity across broad economic sectors remains two to three times below the levels in economies such as Portugal and the Slovak Republic, which are themselves at the lower end of the productivity ladder within the OECD.³

Figure 2.2. Economic structure and sectoral labour productivity



Note: *Labour productivity = value added / labour compensation ratio. This figure only reports the 15 manufacturing and 15 services activities (based on ISIC Rev.4 2-digit sectors) with the highest levels of value added in Jordan.
 Source: OECD calculations based on World Bank’s World Development Indicators (Panel A) and Jordan National Statistics (Panel B).

2.2.3. Growth and productivity are likely to occur in tradable services

A re-boost in exports and foreign investment inflows should drive growth and productivity enhancement in Jordan. Fiscal and balance of payments constraints remain a challenge (Chapter 1). Despite fiscal adjustments, Jordan’s debt-to-GDP ratio has risen to above 90% since the 2008 crisis. Future growth can therefore neither depend on fiscal stimulus, nor can it be expected to come from fiscal discipline. The current account deficit is already large and thus growth cannot be led by an increase in domestic private demand for non-tradable goods given that this would require more imports and worsen the external balance. Jordan’s growth and productivity potential thus lies in exporting activities and foreign investment inflows, which will lower the current account deficit and have a multiplier effect on the non-tradable sector.

The immediate growth and productivity potential lies in services activities that are neither intensive in energy nor in water (Chapter 1). Jordan has the natural endowments to reduce the costs of electricity in the medium term through an acceleration of investments in renewable energy generation and leveraging new technologies to maintain grid stability (Chapter 5). This would also help Jordan’s green growth agenda

more generally and create new opportunities for sustainably increasing water supply, which would also improve competitiveness in (energy- and water-intensive) manufacturing activities. The potential for productivity growth in services is supported by the growing workforce with tertiary education, including of women (Chapter 3 and 4).

2.3. FDI impacts on productivity and innovation in Jordan

FDI has been a key driver of aggregate productivity in Jordan in the 2000s but inflows have slowed considerably ever since and with that productivity has been stagnating (see above). Using OECD's conceptual framework to assess FDI Qualities (OECD, 2022^[5]), this section benchmarks key contextual factors – notably the characteristics of FDI and absorptive capacities of SMEs (i.e. in terms of access to skills, finance, knowledge assets) – that are enabling or constraining the contribution of foreign businesses to Jordan's productivity and innovation enhancement (Box 2.1). The section further assesses the extent to which knowledge spillovers of FDI on productivity of the local economy and SMEs are at play in Jordan.

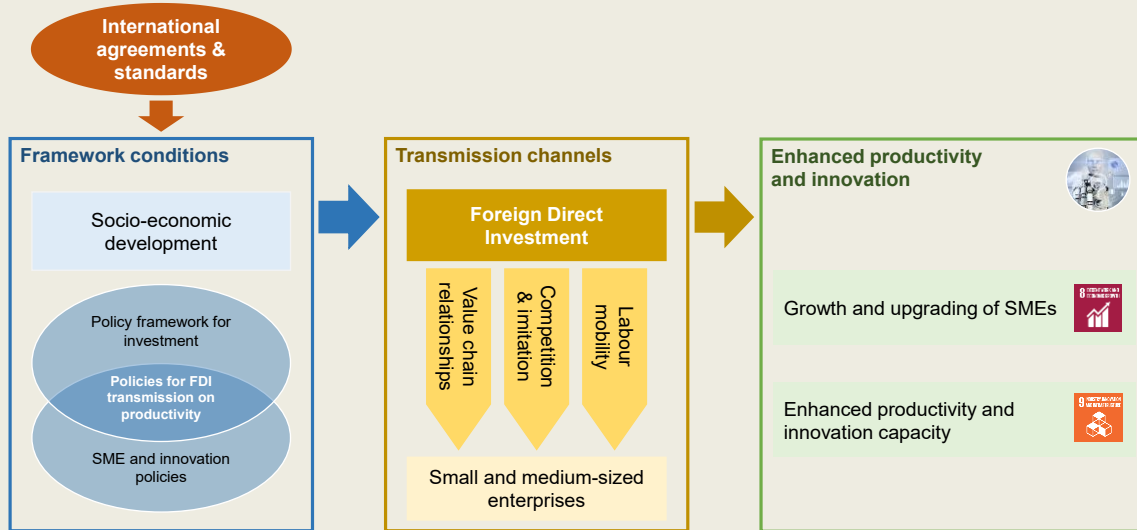
Box 2.1. Conceptual framework to assess the impact of FDI on productivity, innovation and SME development

This box summarises the conceptual framework developed for the productivity cluster of the OECD FDI Qualities Policy Toolkit (OECD, 2022^[5]). The main body of this chapter uses this framework to benchmark the impact of FDI on productivity and innovation, and related policies and institutional arrangements in Jordan against peers in the MENA region and OECD countries.

FDI can, on the one hand, directly contribute to enhanced productivity and innovation and, on the other hand, involve knowledge and technology spillovers on small and medium-sized enterprises (SMEs), contributing to their upgrading and productivity improvement (Figure 2.3, green and yellow box):

- **FDI direct impacts:** Foreign firms' direct impacts relate to their own activities and how they contribute to aggregate and sectoral productivity and innovation. FDI directly relates to improved productivity and innovation at the industry or aggregate level if foreign firm activity is concentrated in sectors that are typically more productive and innovative. The opposite holds if FDI is concentrated in low value-added, less innovative, sectors. FDI can thus shift the sectoral composition towards more or less productive or innovative activities. Additionally, FDI's direct contribution to productivity growth is the result of foreign firms' often observed productivity advantage over domestic firms. This is driven by their stronger access to technology, better managerial skills and more adequate resources for capital investment than domestic firms. Size also matters, since foreign affiliates are usually larger than the average domestic enterprise and can therefore harness economies of scale – including through their relationship with the parent company – which are not available to domestic companies.
- **FDI spillovers:** Due to foreign firms' productivity premium relative to domestic firms, knowledge and technology spillovers of FDI are possible and can lead to increased productivity of domestic enterprises, including SMEs. SMEs can benefit from knowledge and technology spillovers through various transmission channels – such as value chain relationships (buy and supply linkages and strategic partnerships), labour mobility between foreign and domestic firms, as well as competition and imitation effects involving the exchange of tacit knowledge.

Figure 2.3. Channels through which FDI influences productivity, innovation and SMEs



Productivity and innovation impacts of FDI may not materialise automatically and depend on a number of specific contextual and policy factors (Figure 2.3, blue box):

- Contextual factors:** FDI impacts depend notably on the characteristics of FDI itself such as on foreign firms' technological advantage, sectoral and geographic distribution as well as the types (greenfield vs. acquisitions) and motives of FDI. Impacts further depend on the capacities of SMEs to recognise valuable new knowledge and integrate it productively in their processes. These capacities are determined by firms' access to strategic resources such as finance, knowledge capital and skills. FDI impacts are also determined by the broader economic and geographic context in which FDI takes place (e.g. related to infrastructure, natural resources, industrial clusters and skills).
- Policy and institutional factors:** Public policies and institutional arrangements play an important role in enabling FDI spillovers on productivity. Policies and institutions are also essential to avoid negative implications that may result from the presence of foreign businesses, such as crowding out of local SMEs and jobs and implications on the environment (also see Chapters 3-5). Most policies are not specifically targeted to foreign firms; they treat foreign and domestic investors alike. Yet, the extent to which policies affect the two groups, and with that their outcomes on productivity and innovation, can vary. Some regulations directly affect foreign firms' choice of location, influence specific types of foreign firms to invest and keep away others.

2.3.1. FDI in modern, ITC-based services can boost productivity in Jordan

The contribution of FDI to aggregate productivity growth in Jordan (observed in the 2000s) was among other factors led by large (financial) investments in real estate development and energy (Figure 2.4, vertical axis) (Chapter 1). Both sectors employ comparatively few workers but involve disproportionately high capital investments. Investments and (measured) labour productivity in both sectors are primarily driven by global financial market dynamics of these assets and less by real economy value added and labour productivity enhancements.

The fairly high share of FDI stocks and value added in manufacturing is not bolstering aggregate productivity in Jordan. Manufacturing, on average, reports the lowest labour productivity level across all

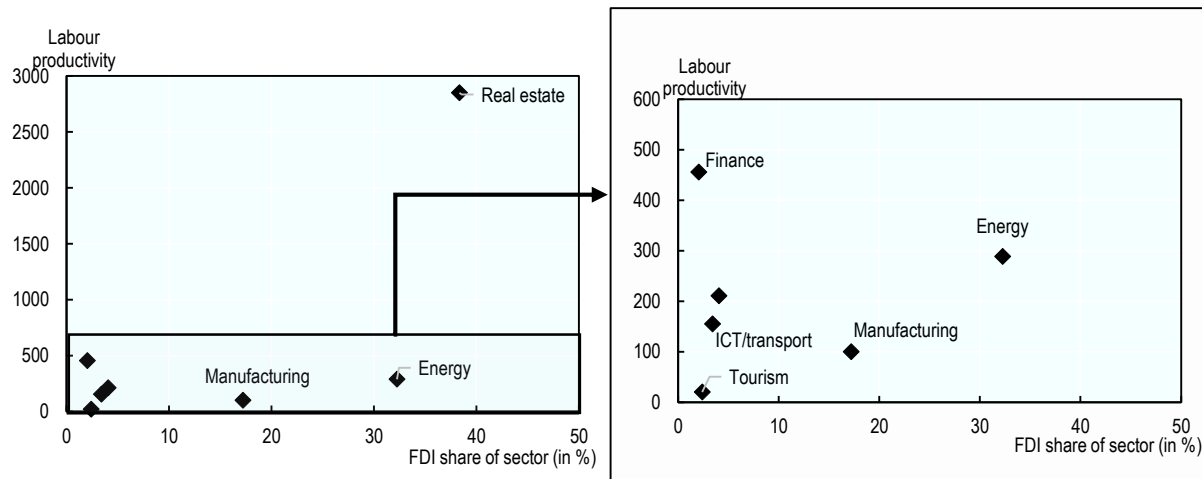
sectors in Jordan, with the exception of tourism activities (such as accommodation and food services). While manufacturing exports have been booming and global market shares increasing before 2008, particularly in chemicals but also in food and garments, competitiveness in most manufacturing sectors has since lapsed due to external factors related to energy prices, water scarcity and regional instability.

By contrast, relative stability of FDI inflows in a number of services activities in recent years can contribute to future growth in productivity – more than in some of Jordan’s peers. In Jordan, labour productivity levels in finance, ICT and transport are considerably higher than in manufacturing (Figure 2.4). Productivity in ICT and transport is 50% higher than in manufacturing; while that in finance is five times as high as in manufacturing. This productivity premium of services vis-à-vis manufacturing disappears when using labour productivity measured as value added per USD spent on labour (see Figure 2.2). This alternative measure of productivity removes the productivity bias for better paid activities.

Finance, ICT and transport still report low FDI shares, but Jordan tends to have higher productivity in these services (relative to manufacturing) than many of its peers (not in shown Figure 2.4). This is particularly the case in ICT/transport where Egypt, Qatar, Finland and Poland report productivity levels below those in manufacturing. Given the increasing comparative advantage – related to an increasingly skilled workforce relevant for ICT and finance – productivity has great potential to increase further in these tradable services. Many of these services are highly labour- but not energy-intensive, providing opportunities for more inclusive and green productivity growth compared to sectors that are currently driving FDI and productivity (i.e. energy and real estate).

Figure 2.4. Labour productivity (index, 100=manufacturing) versus FDI share by sector in Jordan

Labour productivity is reported as an index that is set to 100 for all countries (2019)



Source: OECD based on UNStats and FT’s fDi Markets database.

2.3.2. Foreign firms exhibit important productivity premia over domestic ones

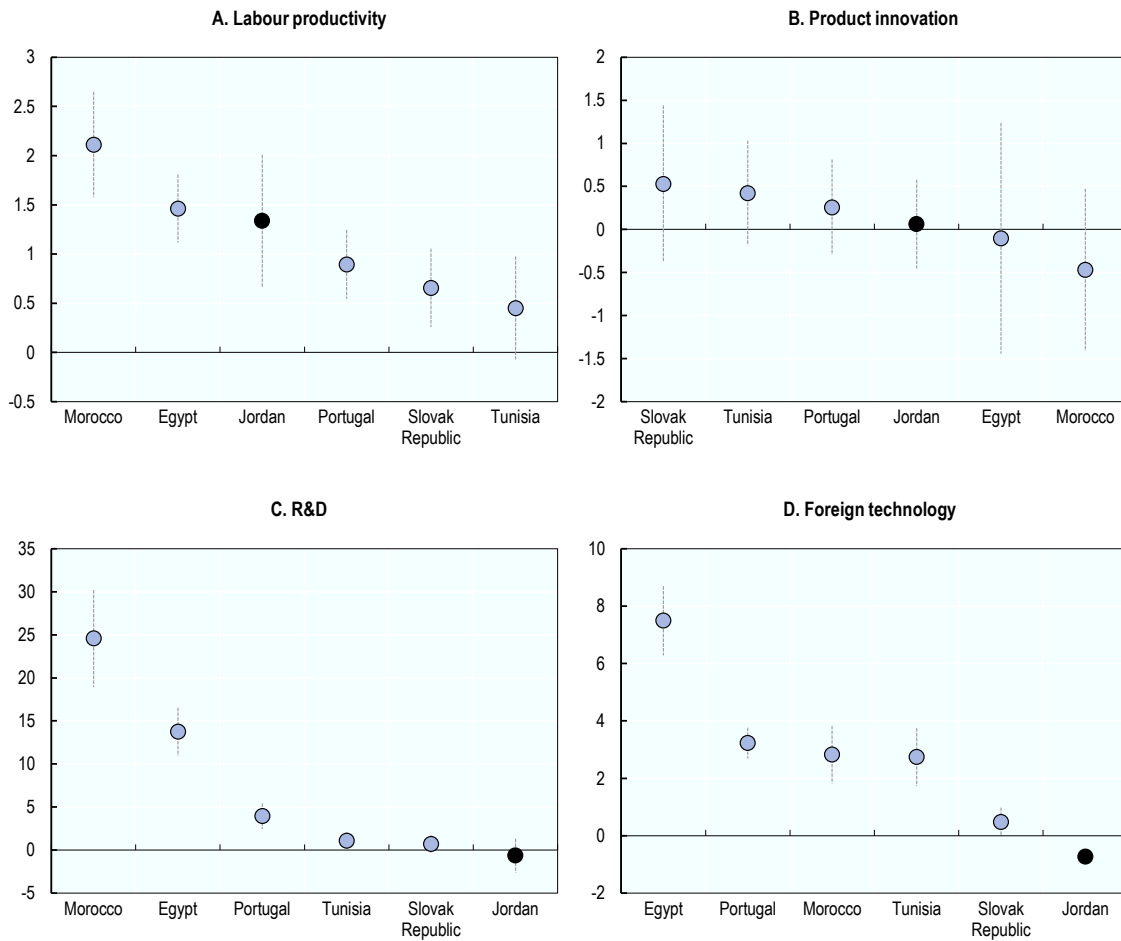
In addition to the sectoral concentration of FDI, foreign investment is directly contributing to enhanced productivity in Jordan due to their productivity premia over domestic firms. Although the manufacturing sector is generally struggling due to high input costs (primarily energy and water), foreign firms contribute to relatively higher labour productivity than domestic manufacturers (Figure 2.5, Panel A). Foreign manufacturers are almost 1.5 times as productive as domestic peers in Jordan. This FDI productivity premium of foreign firms can be observed across all five peer economies; they are even higher in Egypt

and Morocco and lower in Portugal, the Slovak Republic and Tunisia. The productivity premium reveals that foreign manufactures are generally better able to generate value added with available human resources, which may relate to their larger size, better processes and higher capital or technological intensity.⁴

Due to these performance premia of foreign firms in Jordan, knowledge and technology spillovers of FDI are possible and can lead to increased productivity of domestic enterprises, including small and medium-sized enterprises (SMEs). If productivity differences are excessive, however, it is unlikely that domestic firms can absorb such knowledge. Comparing productivity differences does not allow for conclusions on whether or not SME absorptive capacities are sufficient, but identifying differences in capacities allows to infer that the potential for spillovers exists. Capacities of SMEs to absorb foreign knowledge and use it productively in their own processes is assessed in the next sub-section.

Figure 2.5. Performance premia of foreign relative to domestic manufacturers are limited in Jordan

Do foreign firms have higher performance levels than their domestic peers? (yes if value > 0; no if value < 0)



Note: See methodology in OECD (2019); Panel A: Labour productivity = average value added per person employed in foreign vs. domestic firms; Panels B-D: share of foreign vs. domestic firms that engage in product innovation and R&D and that licenced a technology from a foreign firm.

Source: OECD FDI Qualities Indicators based on World Bank Enterprise Surveys.

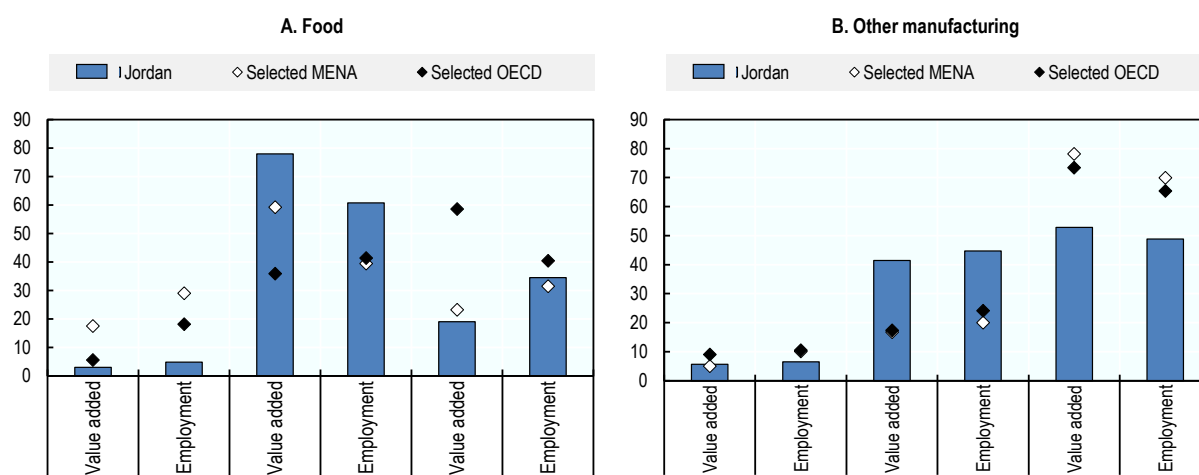
The lack of skills- and technology-intensive activities undertaken by foreign firms in Jordan reduces the opportunities for linkages with and spillovers on domestic peers. Unlike in Portugal, the Slovak Republic and several MENA economies, foreign manufacturers are generally not operating in Jordan to engage in innovation activities or in the use of frontier technologies from abroad (World Bank, 2019^[6]). Domestic manufacturers too are generally not engaging in R&D and product innovation in Jordan. In fact, domestic firms are more likely to apply licensed technologies from abroad compared to their foreign peers (Figure 2.5, Panels B, C and D). Foreign firms have been seeking the Jordan market for manufacturing production to engage in low-technology, standardised activities, which are often less likely to generate productivity spillovers than skills intensive activities (Keller and Yeaple, 2009^[7]; Nicolini and Resmini, 2010^[8]).

2.3.3. The comparatively large SME sector has limited capacity to benefit from FDI presence

The SME sector is economically more important in Jordan than in selected MENA and OECD countries. This holds particularly true for medium-sized manufacturers with 20-99 employees. In food production for example, medium-sized firms in Jordan are responsible for 80% of value added and 60% of jobs compared to average shares below 60% for value added and 40% for employment in comparator economies (Figure 2.6, Panel A). Medium-sized firms in other manufacturing sectors (particularly chemicals) are also contributing relatively more to value added and employment in Jordan compared to selected MENA and OECD countries (Panel B). On the other hand, large manufacturers with more than 100 employees have a larger economic weight in peer economies.

Figure 2.6. Distribution of value added and employment by firm size in manufacturing

Value added and employment shares in sector by firm size (in percentage)



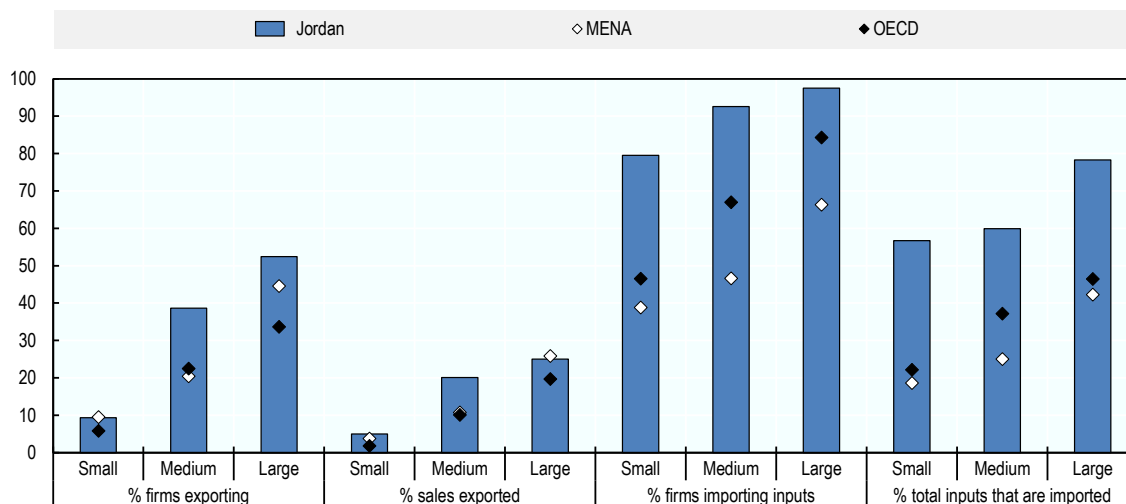
Note: Size categories: small (<20 employees), medium (20-99 employees), large (>100 employees); selected MENA = Egypt, Morocco, Tunisia; selected OECD = Portugal, the Slovak Republic.

Source: OECD based on World Bank Enterprise Surveys.

SMEs in Jordan are more internationalised than those in peer economies, which could signal their capacity to absorb knowledge from foreign firms through spillovers. Across all categories of firm size (small, medium and large), firms in Jordan are more internationalised than their peers in selected MENA and OECD countries (Figure 2.7). This holds across metrics such as (a) percentage of firms that export, (b) percentage of sales exported, (c) percentage of firms importing inputs and (d) percentage of total inputs

that are imported. The ability of Jordan's SMEs to internationalise through exports and imports and thereby to integrate in global value chains could signal SMEs' potential to benefit from FDI spillovers as well.

Figure 2.7. Integration in global value chains by firm size group



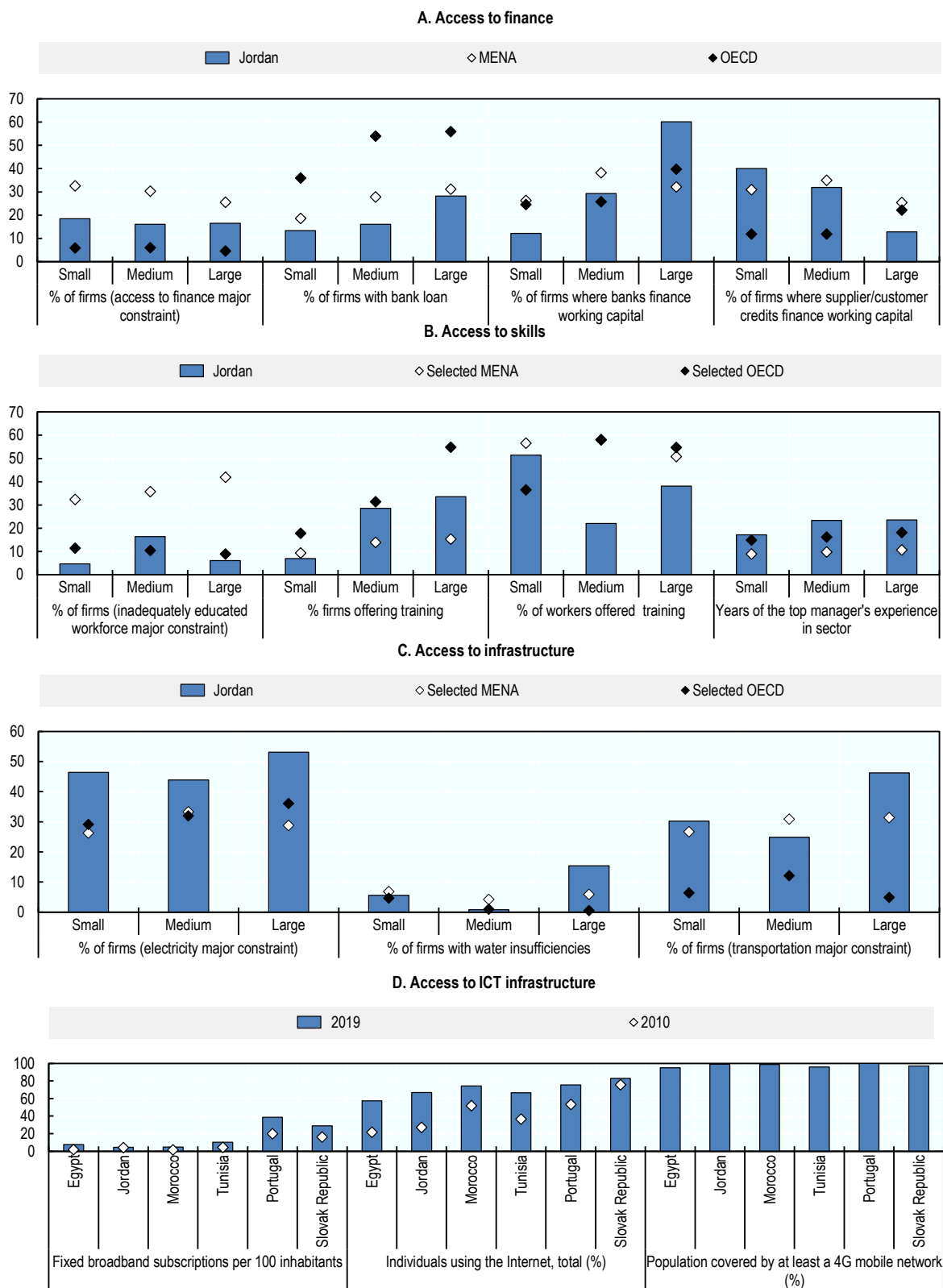
Note: Size categories: small (<20 employees), medium (20-99 employees), large (>100 employees); selected MENA = Egypt, Morocco, Tunisia; selected OECD = Portugal, the Slovak Republic.

Source: OECD based on World Bank Enterprise Surveys.

Yet, SMEs in Jordan have lower access to strategic resources such as finance and infrastructure compared to peers – while access to skills is less of a constraint (Chapter 3). These resources are critical for firms to tap on knowledge and technologies of foreign firms and thus their absence or limited availability constrains firms' competitiveness in Jordan (Figure 2.8). For example:

- In terms of finance, about 20% of SMEs and large firms in Jordan identify access to finance as a major constraint for their business operations (Panel A). These shares are much higher than in selected OECD countries (Portugal and the Slovak Republic).
- In terms of skills, less than 15% of medium-sized firms and less than 5% of small and large firms in Jordan consider an inadequately educated workforce as a major constraint (Panel B). In fact, there is an important skills-mismatch and many workers are overqualified (Chapter 3).
- Access to key infrastructure services (e.g. electricity, water and transport) is identified as a considerably higher constraint for businesses in Jordan as compared to its selected peers (Panel C).
- Access to fixed broadband internet remains generally low in the MENA region, including in Jordan, while access to high-speed mobile internet networks (such as 4G) is guaranteed for the entire population in Jordan as it is in other economies (Panel D).

Figure 2.8. Access to finance, skills and infrastructure

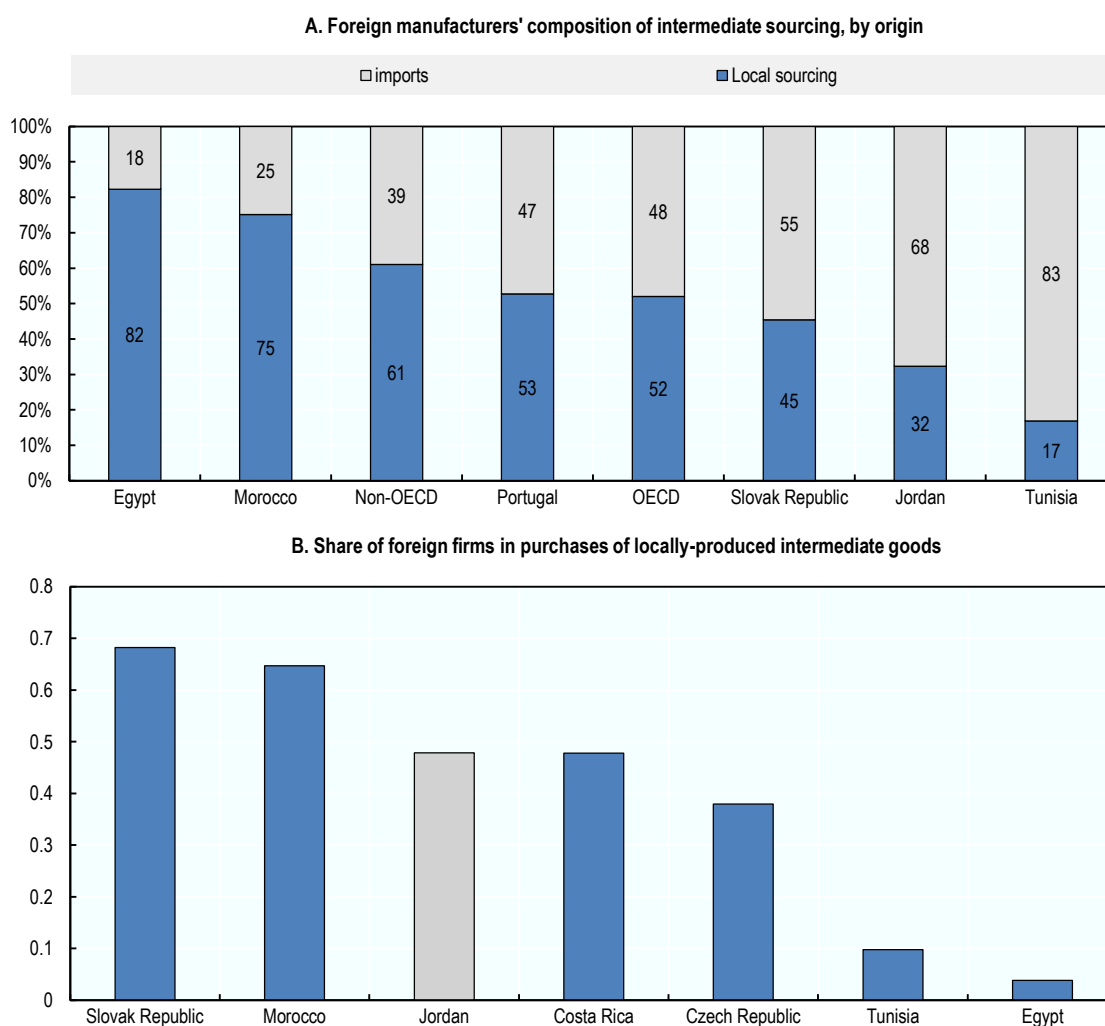


Note: Selected MENA = Egypt, Morocco, Tunisia; selected OECD = Portugal, the Slovak Republic.
 Source: OECD based on World Bank Enterprise Surveys and International Telecommunications Organisation.

2.3.4. Despite some local linkages with foreign firms, knowledge transmission to domestic SMEs is limited

Linkages between affiliates of foreign firms and the local economy are well below the average for non-OECD countries. Unlike in Egypt and Morocco, foreign firms in Jordan source less than half of their inputs from firms (both domestic and foreign) that produce locally (Figure 2.9, Panel A). This sourcing share is higher than in Tunisia, however. Relatively lower shares of local sourcing are common among small open economies like Jordan and Tunisia. Small economies cannot develop a comparative advantage in all sectors and parts of supply chains and thus specialise in certain areas, while depending on imports for some goods and services. Overall, linkages between foreign manufacturers and local firms in Jordan involve mostly sourcing of low-value added and low-technology inputs, rather than strategic partnerships for R&D or knowledge activities (OECD, 2021^[1]).

Figure 2.9. Local sourcing of foreign firms in Jordan, 2019



Source: OECD based on World Bank Enterprise Surveys.

Despite limited local sourcing, affiliates of foreign firms are a key source of revenue for local suppliers in Jordan but not necessarily SMEs. In Jordan, foreign firms buy more than half of the locally produced

intermediates (Figure 2.9, Panel B), even more than in Morocco and the Slovak Republic, for example, where affiliates of foreign MNEs buy almost 70% of locally produced inputs. However, local sourcing in all three countries is mostly driven by foreign firms supplying intermediates to other foreign firms hosted in the same country (OECD, 2021^[11]).

FDI has led to knowledge and technology transfers for some domestic suppliers in Jordan – particularly young and services firms. Research based on Jordan’s census data 2006 and 2011 shows that spillovers – measured by employment and capital growth – occurred particularly among younger firms (established after 1990) supplying foreign firms and companies supplying services (World Bank, 2015^[9]). This type of domestic firms continued to grow after many foreign firms exited the Jordan market in the late 2010s due to the global crisis and regional conflicts. This shows that learning externalities for young and services suppliers appear persistent, that is, they continue even after FDI leaves and underlines the relative competitive advantage of services, as opposed to manufacturing, in Jordan.

On the contrary, domestic firms in the same sector in which foreign firms are operating experienced a crowding out effect of employment growth in the 2010s (Chapter 3). Domestic manufacturers and services firms that are directly competing with foreign firms, which are often more productive and have superior technology endowments, have experienced an employment growth decline. This finding is in line with existing research showing that productivity and employment growth spillovers occur rather among domestic firms in vertical relationships with foreign firms, as opposed to firms that are competing in the same sector (OECD, 2022^[5]; Farole, 2014^[10]).

2.4. The governance framework for investment, innovation and SME policy

Jordan puts high policy priority on investment as a driver for productivity, innovation and SME upgrading. Like many emerging economies in MENA and other regions, the Government of Jordan supports this ambition with various multi-year strategies and plans, governed by dedicated councils and committees, ministries and implementing agencies. This section provides an overview of government strategies and the institutional setup at the intersection of investment, innovation and SME policy and evaluates to what extent they are conducive with Jordan’s comparative advantage and opportunities for productivity and innovation growth.

2.4.1. Jordan has a coherent framework of national strategies to support FDI-driven productivity growth by linking investment, SME and innovation policies

Jordan’s vision for sustained social and economic growth targets sectors with significant investment, growth and productivity potential. Social and economic development ambitions are underpinned by the ten-year Jordan 2025 blueprint (Box 2.2). This vision places emphasis on the role of private – particularly foreign – investment and takes a sectoral or cluster-based approach. It essentially aims to foster investment, productivity and growth in eight (mostly) services sectors, including: construction and engineering, transport and logistics, tourism and events, health care, life sciences, digital and business services, educational services and financial services. Despite a general investment slowdown in recent years, Jordan has continued to attract FDI in many of these services although shares of investment stocks remain low compared to less competitive manufacturing, for example (Section 2.3). The analysis in Section 2.2 further revealed that these services have the highest potential for further productivity growth in Jordan, supporting the appropriate choice of target sectors.

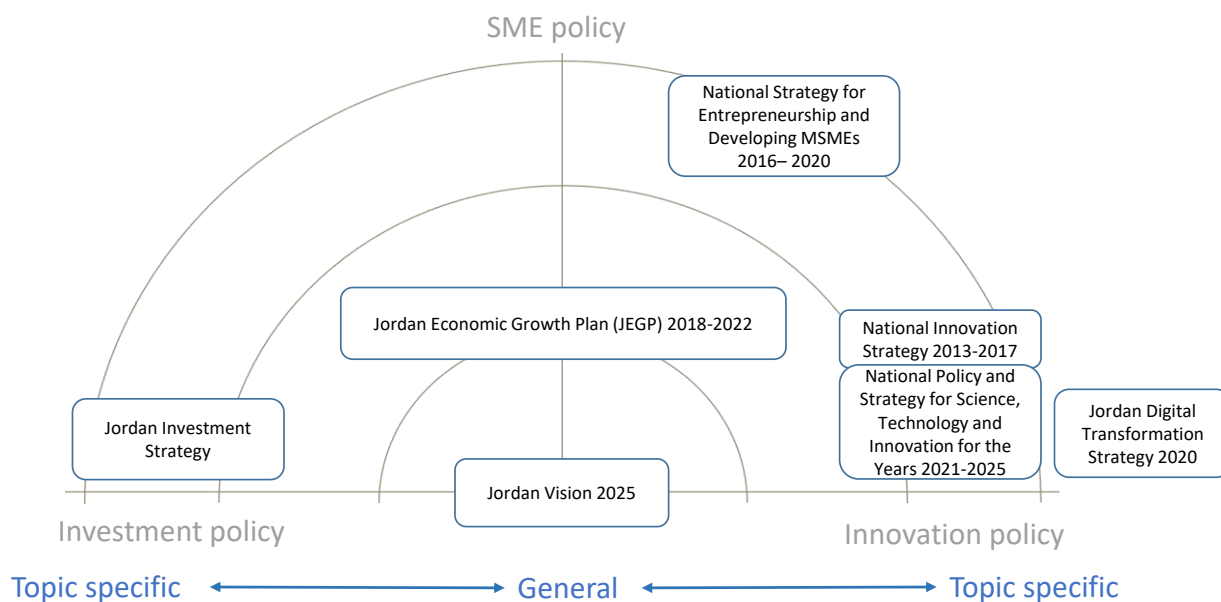
The implementation of Jordan’s overarching vision 2025, and particularly its ambition related to productivity, is supported by multiple national strategies (Figure 2.10). The vision is most directly implemented through numerous planned economic, fiscal and sectoral policies under the Jordan Economic Growth Plan (JEPG) 2018-22, established by the Economic Policy Council. The plan intends to expand

productivity and capacity in the eight Jordan 2025 target sectors. It recognises the importance of private investment, innovation, digitalisation and SMEs for Jordan to achieve sustained productivity and growth. Additionally, Jordan’s governance framework for investment driven productivity growth contains a number of strategies specifically focusing on investment, SMEs, innovation and digital policy and promotion – all based on and inspired by Jordan 2025 (Box 2.2).

The design and continuity of sectoral strategies for investment, SMEs, innovation and the digital economy could be further improved. While all sectoral strategies make reference to Jordan 2025, they are all introduced separately without cross-referencing to and alignment with strategies introduced by other government bodies. Some sectoral strategies have reached the end of their applicability, based on information available online in English, and have not yet been renewed (e.g. Jordan Investment Strategy 2016-19; and National Entrepreneurship and SME Growth Strategy 2015-19) or they were not immediately renewed (e.g. the National Policy and Strategy for Science, Technology and Innovation 2021-25 was introduced after a 5-year vacuum without an innovation strategy). Jordan’s governance framework based on multiple national strategies and action plans could further benefit from improved cross-referencing, alignment across strategies and continuity.

Information on these strategies could be centralised and be made available online in a consistent and timely fashion. While investment is critically important for productivity and development ambitions in Jordan, its investment strategy in English is not accessible online, for example. All other strategies are scattered across ministerial and agency websites. Having a centralised online platform for Jordan 2025 where all up-to-date national strategies, related laws, regulations and information on institutional governance are available would greatly help potential foreign and domestic investors as well as government agencies and ministry departments to navigate through policy ambitions and plans on interrelated policy areas relevant to FDI-driven productivity growth.

Figure 2.10. Key strategies for sustainable development, investment, SMEs and innovation



Source: OECD FDI Qualities Mapping (2021).

Box 2.2. National strategies supporting productivity and SME growth through investment

Jordan 2025, introduced in 2014 by the central government, is Jordan's long-term vision and emphasises the role of foreign investment for Jordan's competitiveness and productivity enhancement, including of SMEs. It adopts a cluster-based approach to expand existing industries that are performing well, while developing related or supportive clusters complementary to those industries. The plan identifies eight industrial clusters as having high potential for development: construction and engineering, transport and logistics, tourism and events, health care, life sciences, digital and business services, educational services and financial services.

The **Jordan Economic Growth Plan (JEPG) 2018-22**, established by the Economic Policies Council, introduces almost one hundred economic, fiscal and sectoral policy actions, targeting growth and development of the eight sectors identified by the Jordan 2025 vision. Policy actions aim to expand industrial capacity and growth through effective partnerships of private and public sector actors, infrastructure development, new digital government services and reduction of red tape. The plan further recognises the importance of SMEs in Jordan and highlights the importance of fostering entrepreneurship and innovation, while supporting existing businesses to expand.

The **Jordan Investment Strategy 2016-19**, developed by the Jordan Investment Commission (JIC) – now Mol, and introduced in 2016, further supports the implementation of development objectives under the Jordan 2025 vision. The strategy is not intended to be a wider national investment strategy. Instead it is primarily focused on Mol's activities in attracting companies to directly set up and expand in Jordan. Yet, the strategy aims to not only boost the quantity but also the qualities of investment, particularly emphasising quality jobs for skilled workers, linkage opportunities for local businesses, deepening of Jordan 2025 industrial clusters and enabling productivity spillovers through investment. The strategy is currently being updated by Mol.

The **National Innovation Strategy 2013-17**, established and implemented under the responsibility of the Higher Council for Science and Technology (HCST) has served to frame proactive policies in the area of innovation, research and development (R&D) with the objective of making Jordan an innovation-based economy. Under this overarching objective, it has put an emphasis on medical services and the pharmaceutical industry, ICT, clean technologies, architecture and engineering services, education and career guidance services, and financial services, in line with the sectoral focus of Jordan 2025.

While the previous innovation strategy was not immediately renewed, the government has approved the **National Policy and Strategy for Science, Technology and Innovation (2021-25)** in April 2021. The new strategy puts emphasis on research and innovation that supports Jordan in addressing key climate-related challenges shared with other economies in the MENA region, including water scarcity, sustainable agriculture, health and renewable energy. The strategy is closely co-ordinated with the Union for the Mediterranean Regional Platform for Research and Innovation, co-chaired by the European Commission's DG Research and Innovation and Jordan's HCST.

The **Jordan Digital Transformation Strategy 2020**, established by the Ministry of Digital Economy and Entrepreneurship (MoDEE), outlines the changes and strategic requirements needed to keep up with the progress of the global digital transformation, and to improve government services and performance (MODEE, 2020). To translate this strategy into concrete actions, the government has launched **REACH 2025** in 2016. With this action plan, Jordan aims to digitise the entire economy with emphasis on niche markets and global value chains. The plan includes objectives related to enhancing startups and entrepreneurship in the digital sector, development of digital skills and talent, and improving the business environment through digitalisation.

Realising the importance of SMEs in Jordan and the necessity of government support for them to grow, the **National Entrepreneurship and SME Growth Strategy 2015-19** has listed action plans for enhanced growth, productivity, innovation and internationalisation of domestic SMEs. The Strategy picks up overarching weaknesses of SMEs in Jordan, such as a weak entrepreneurial culture, lack of access to financing, lack of entrepreneurial and management skills and capacity, challenges in market access and lack of innovation and technology adoption and development (see Section 2.3). While the strategy does not make explicit reference to linkages between FDI and SMEs, addressing identified weaknesses would improve SMEs capacities to absorb knowledge and technologies from foreign investors. The strategy has not been renewed to date.

Source: OECD FDI Qualities Mapping (2021).

2.4.2. The governance of policies supporting FDI impacts on innovation, productivity and SMEs is entrusted to several government bodies at various levels

The institutional framework supporting FDI impacts on productivity and innovation is ensured at the highest level by three main inter-ministerial councils (Figure 2.11):

- Directly under the King's supervision, the **Economic Policies Council (EPC)** in charge of devising and implementing Jordan's five-year policy action plans to implement the 2025 vision was established in 2016. While the EPC covers the whole spectrum of public policies, it puts important weight on the role of private investment for boosting growth, productivity and innovation in Jordan (Economic Policy Council, 2017^[11]).
- The **Higher Council for Science and Technology (HCST)** is responsible for fostering business innovation and knowledge transfers. Unlike other high-level councils in Jordan, the HCST is not only designing but also implementing innovation policy initiatives. The HCST is overseen by the central government cabinet.
- The **Investment Council** is overseeing the management and development of investment policies in general and those relevant for FDI transmission on productivity in particular. The Investment Council is headed by the Prime Minister and brings together several ministries (e.g. Ministry of Investment, Ministry of Industry, Trade and Supply, and Ministry of Planning and International Co-operation), and the Governor of the Central Bank, chambers of commerce and industry and other representatives from the private sector. As per the 2014 Investment Law, members submit recommendations on investment strategies, policies and reforms directly to the IC.

Policy implementation at the intersection of investment, innovation and SME policy is devolved to three main agencies with complementary mandates:

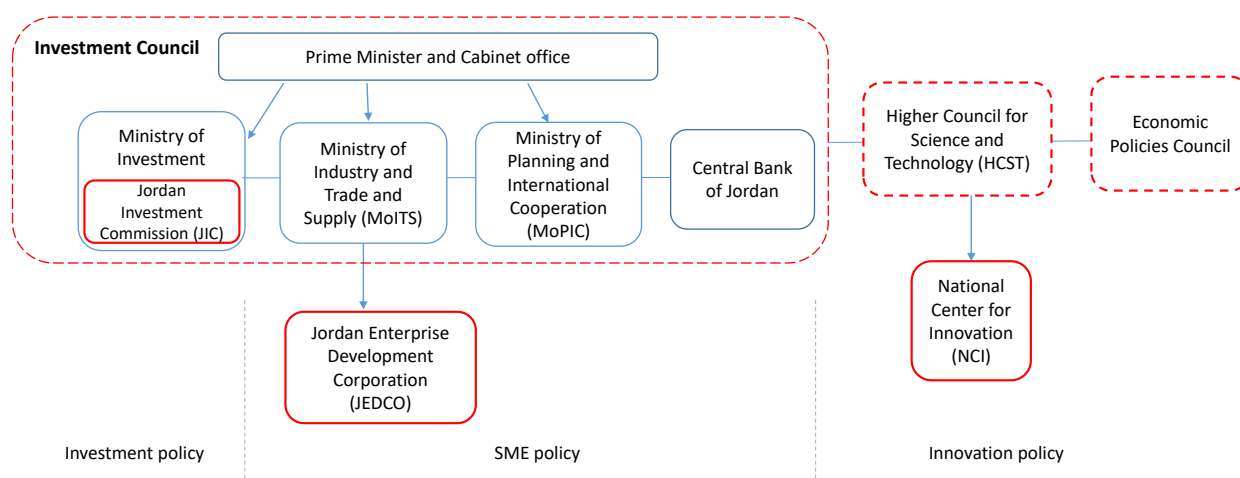
- The recently established Mol, which is responsible for investment promotion and facilitation. Mol has a wider range of mandates compared to many investment promotion agencies in the OECD area (OECD, 2019^[12]). It engages in investment attraction and facilitation, on the one hand, and export promotion of domestic companies, on the other. This double mandate is an opportunity to devise coherent approaches for business linkages between foreign firms and domestic SMEs, supporting upgrading and internationalisation of the domestic economy. The consolidation of investment and export promotion into one agency was introduced with the establishment of JIC in 2014. Previously, investment promotion was under the former Jordan Investment Board and the export promotion department of JEDCO. This structural reform also gave JIC – now Mol – the mandate to regulate and oversee the Jordan Free and Development Zones Group.
- The **Jordan Enterprise Development Corporation (JEDCO)** is overseen by the Ministry of Industry, Trade and Supply (MoITS) and primarily in charge of designing, implementing and

evaluating support programmes for emerging businesses and SMEs with a strong focus on strengthening their innovation capacity. The capacity to innovate is key for SMEs to absorb knowledge and technologies from foreign investors. As mentioned above, the export promotion mandate is officially no longer entrusted to JEDCO but is now under the responsibility of MoI.

- The **National Center for Innovation (NCI)** was launched in 2016 by the HCST to boost Jordan's transition to an innovation-based economy. NCI is expected to function as a policy implementation body, which is currently still often done by the HCST itself. The NCI also serves as a national one-stop information and referral hub for all activities related to innovation and private sector development by preventing duplication, inefficiency and co-ordination in terms of implementing policies related to innovation. Implemented with a support of the EBRD in 2019, the NCI has introduced an online co-ordination platform – the so-called Jordan Open Innovation Platform (JOIP).

In addition to the Ministry of Investment, the Ministry of Planning and International Co-operation (MoPIC) supports FDI impacts on productivity and innovation through the implementation of programmes supported by development partners. As the recipient of funding from development partners, the MoPIC helps rolling out a significant number of policy programmes contributing to these three policy domains and their intersection (Box 2.3). Policy implementation in Jordan has often been constrained by limited financial resources and capacities and therefore the contribution of development co-operation to policy implementation is fundamental for Jordan's success in achieving these policy objectives (Economist Intelligence Unit, 2016^[13]).

Figure 2.11. Public institutions supporting investment, productivity and innovation in Jordan



Note: In red frame are the main government agencies implementing policies that strengthen FDI diffusion on productivity and innovation. Blue arrows indicate which institutions are overseeing others.

Source: OECD elaboration.

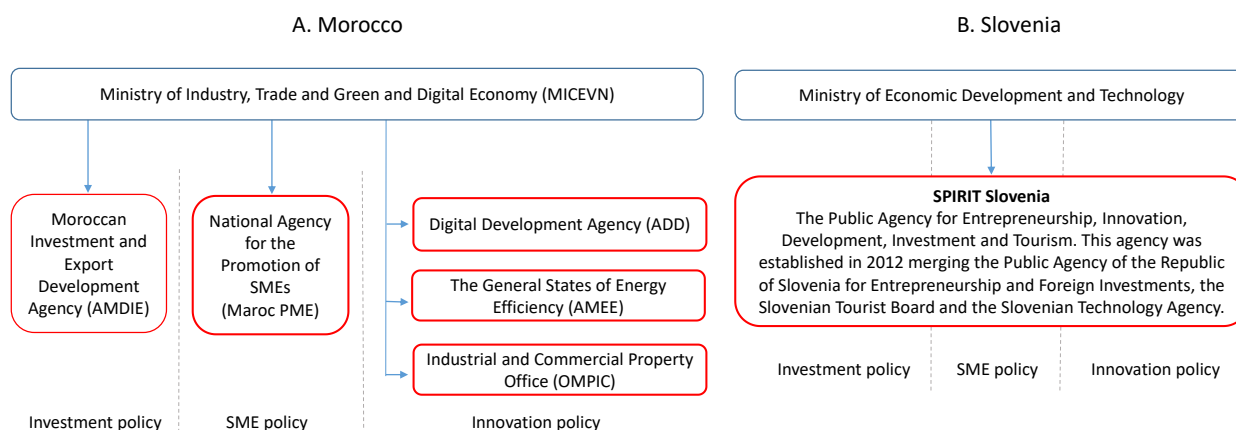
Jordan's institutional framework across the investment, SME and innovation policy areas is comparable with that of Portugal. The institutional framework in Portugal is rather complex and represented by many state bodies. Policies that strengthen FDI impacts on productivity and innovation are designed and implemented through several ministries, task forces, advisory bodies and autonomous government agencies that operate at the intersection of investment promotion, SME development, innovation and regional development policy (OECD, 2022^[4]). On the other hand, in other peer countries such as Morocco and Slovenia, all these policy domains are brought together under the responsibility of one ministry, which entrusts policy implementation to one or a small number of autonomous agencies (Figure 2.12). By design,

the need for inter-institutional co-ordination in such governance frameworks is limited, as coherence across policy domains needs to be achieved within a single supervising body.

More complex institutional settings in Jordan or Portugal may not be less effective in the implementation of policies that support FDI impacts on productivity and innovation as long as inter-institutional co-ordination mechanisms are in place to overcome policy silos. Given the high transaction costs associated with the fragmentation of governance systems, the cost effectiveness of Jordan's institutional setting should be ultimately weighed against the quality of co-ordination and the potential benefits of a more centralised approach. An assessment of policy co-ordination mechanisms is conducted in the next section, pointing towards weaknesses in inter-ministerial collaboration across the areas of investment promotion, innovation and entrepreneurship. On the other hand, co-ordination approaches and instruments may vary depending on the context, country and policy area. In some cases, it is better to apply specialised agencies to each policy domain and ensure co-ordination among them.

Jordan would also benefit from more clarity on the institutional roles and policy mandates entrusted to its implementing agencies to avoid potential overlaps or duplication of policy efforts. Although responsibility for trade promotion was transferred from JEDCO to JIC in 2014, the majority of technical and financial support programmes implemented by JEDCO still focus on strengthening the export capacities of domestic firms and supporting their upgrading in Global Value Chains (GVCs). On the other hand, the trade promotion mandate of JIC (now MoI) is limited to the organisation of promotional activities such as commercial events, product exhibitions and business missions in foreign markets. Clarifying the role that each agency plays in supporting the internationalisation of domestic firms and aligning it with the policies and programmes that they implement will help foster policy coherence and identify areas where synergies can be further developed. This is the case particularly for policies supporting FDI-SME linkages, where complementary expertise from both the investment and trade promotion policy areas is needed.

Figure 2.12. Institutional arrangements for FDI, SME and innovation policy in Morocco and Slovenia



Note: In red frame are the main government agencies implementing policies that strengthen FDI impacts on productivity and innovation. Blue arrows indicate which institutions are overseeing others.

Source: OECD elaboration.

Box 2.3. Foreign support in enhancing productivity, innovation and SMEs in Jordan

Jordan, as a lower middle income country, receives significant foreign assistance including for policy reform and implementation. The Jordan Compact was signed between the Government of Jordan and the international community in 2016 to cope with a massive number of refugees from neighbouring Syria and Iraq. Since then, Jordan receives international support and preferential trade terms with the condition to open its labour market to refugees (OECD/European Union/ETF, 2018^[14]). The Ministry of Planning and International Co-operation (MoPIC) is in charge of implementing the broader country development strategy and mobilising support from international actors including the Jordan Compact. The execution of specific projects is not only done by MoPIC but also allocated to line ministries and agencies specialised in the subjects. Two of these programmes are particularly relevant for SMEs:

Jordan Competitiveness Program (USAID)

The Jordan Competitiveness Program (JCP) supports both private and public sector actors with the objective to increase exports, promote investment, and improve the climate for doing business in Jordan. Concretely, the programme provides support to MoITS and MoI in their efforts to assist domestic firms accessing foreign markets. It also directly supports manufacturers in Jordan to access the EU market through the special simplified Rules of Origin arrangement under the Jordan Compact (USAID, 2019^[15]).

Support to Research and Technological Development and Innovation Initiatives (EU)

The project aims to support applied scientific research focusing on the commercialisation of research results in business products of SMEs. The project also tries to accelerate the integration of Jordan into the European research development market. HCST and JEDCO are co-funding some of the activities implemented by the project. The implementation of this project is done in the form of grant assistance for the researchers as well as trainings delivered by experts from research centres and universities in Europe (HCST, 2021^[16]).

2.4.3. Policy co-ordination in the areas of investment, innovation and SME development does take place, but joint programming and inter-agency collaboration are limited

Actions to improve the impact of FDI on productivity and innovation need to be aligned with the objectives and strategies set by the Jordanian Government across different policy areas. This means that state bodies need to co-ordinate their activities and maintain strong ties with institutions that operate in different parts of the government.

High-level government councils in Jordan could further ensure that public and private institutions from all relevant policy areas – i.e. investment, innovation and SME development – and all stakeholder groups (including foreign) are represented. The Investment Council gets closest to aligning policies across different domains. It is chaired by the Prime Minister and includes representatives from both the public and private sectors – including not only MoI on the investment side but also the MoITS overseeing the SME agency, JEDCO, the MoPIC rolling out development co-operation programmes in the area of investment and the Central Bank. Yet, institutions responsible for policies to promote business innovation such as the HCST are not part of the Investment Council. The Investment Council is well positioned to co-ordinate investment and business development concerns, with direct impact on the implementation of policy programmes through MoI and JEDCO, including those funded through development partners.

On the other hand, the Economic Policies Council, also chaired by the Prime Minister, is represented by parliamentary committees on investment and social issues as well as private sector stakeholders. Relevant

ministries and implementation agencies have only an observer status in this council and may engage in dedicated working groups (The Jordan Times, 2016^[17]). None of these councils include members or observers representing foreign investors. While full membership of foreign stakeholders could be problematic, including their voice as observers or in dedicated stakeholder consultations would be fundamental to address any challenges they may face with regard to engaging in knowledge-intensive activities or collaborating with domestic firms.

Roles and mandates of various high level horizontal co-ordination bodies, which put development strategies in place, could be also clarified. Key co-ordination bodies and strategies are in place in Jordan, but there might be overlaps in their mandates and objectives, which could lead to uncertainty for existing and potential investors. The role of the Investment Council and that of the Economic Policies Council is currently not sufficiently differentiated, for example. This concern also relates to the need for a centralised and updated online information platform on national strategies, which was made earlier.

At the policy implementation level, horizontal co-ordination and co-operation on investment, innovation and SME policies are broadly absent in Jordan. The OECD FDI Qualities policy mapping conducted for this study revealed that only one policy initiative is jointly executed by two government agencies. Fostering greater inter-agency co-ordination and co-operation in the implementation of policies that span several policy areas will be crucial for Jordan to maximise the potential of FDI for productivity growth and innovation. In Portugal, for example, inter-agency collaboration is frequent. Horizontal co-ordination mechanisms are primarily formalised by laws and regulations, which often describe the role and responsibilities of each institution, their internal management processes, and the policy areas where inter-institutional collaboration is required (OECD, 2022^[4]). The Jordanian Government could encourage implementing agencies to engage in joint programming procedures on workstreams that require complementary expertise (e.g. FDI-SME linkages, innovation-oriented investment). Setting up dedicated inter-agency committees to monitor the implementation of jointly implemented policy workstreams could also ensure that bottlenecks in communication are resolved and resources from different parts of the government are pulled together for the implementation of targeted measures.

Vertical co-ordination mechanisms across levels of government are fairly well-established in Jordan. Two-directional feedback mechanisms between policy design, implementation and evaluation agencies are key to communicate challenges policy beneficiaries (e.g. foreign investors or domestic SMEs) may face in given policy setups (OECD, 2018^[18]). In Jordan, MoI is well-placed to transmit investor concerns to the Investment Council and can thereby provide important inputs to policy reforms at higher levels (OECD, 2019^[12]). In the area of innovation policy, the HCST and NCI have more frequent interactions. The NCI is administratively attached to HCST's head office in Amman. This proximity of the two institutions makes direct engagement and information sharing with private innovation actors easier (OHK Consultants, 2018^[19]). The clear separation of policy making and implementation between MoITS and JEDCO leaves it unclear to what extent JEDCO has the leverage to engage in policy advocacy at higher levels.

2.5. The policy framework supporting the impact of FDI on productivity, innovation and SMEs

This section builds on the discussion of the institutional framework for FDI impacts on productivity and innovation and discusses challenges and opportunities of the broader climate for business and investment that could affect productivity growth in the future. The section also discusses the mix of policies that various implementing agencies in Jordan have put in place to support productivity through investment and SME growth.

2.5.1. Further opening services to foreign investors could support productivity growth in the economy as a whole

Jordan has made important strides in opening up to trade and investment, which supported productivity growth in manufacturing in the 1990s and early 2000s. Initiated in the late 1980s, trade liberalisation and structural reforms were supported by extensive programmes of the IMF and World Bank (Harrigan, El-Said and Wang, 2006^[20]). The establishment of Qualified Industrial Zones (QIZ) in the mid-1990s in partnership with the United States contributed to regional economic co-operation in manufacturing production and provided Jordan direct access to the US market without tariff or quota restrictions, subject to certain conditions. Trade reforms were accompanied by reduced restrictions for the entry of foreign capital. According to the OECD FDI Regulatory Restrictiveness Index, FDI restrictions in Jordan are today lower than in many of its peers in the MENA region but remain fairly high compared to OECD economies (Figure 2.13, Panel A).

Reforming and opening services would support productivity objectives defined in Jordan's vision 2025. Like in many MENA and OECD economies, services liberalisation – including a number of 'behind-the-border' policy dimensions important for services development – is lagging behind reform processes in other sectors of the economy (OECD, 2021^[21]). Restrictions in business services (e.g. legal, consulting, engineering and advertising, as well as R&D, data and computer services), distribution, transports and tourism remain fairly high in Jordan but are on par with the MENA region average (Figure 2.13, Panel B). As identified by the Jordan 2025 vision and the analysis in this chapter (Section 2.2), these economic activities have the highest potential for productivity growth in Jordan, but remaining investment restrictions are likely to constrain this potential.

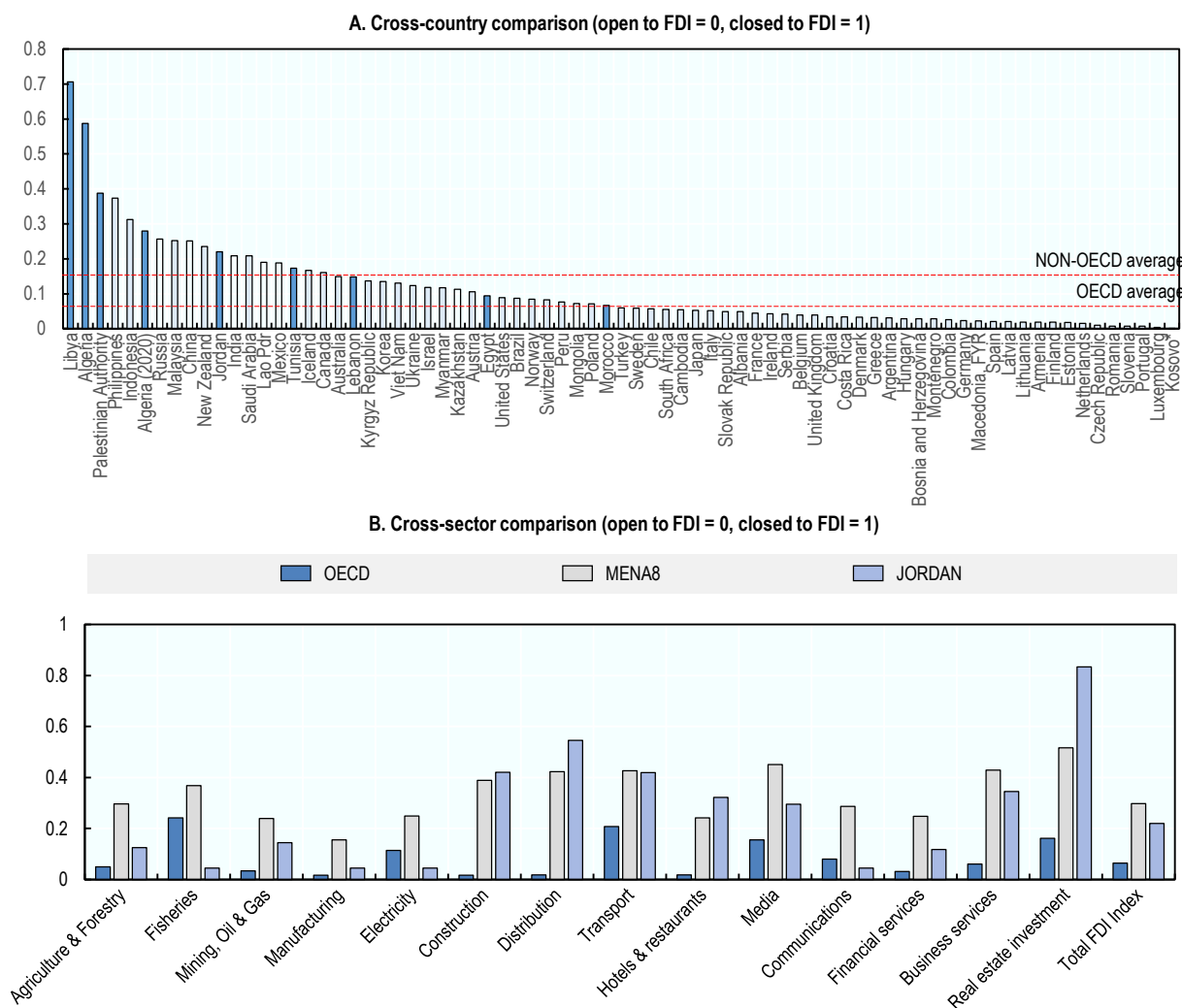
The development of competitive services sectors has also great potential to enhance growth and productivity in other sectors in Jordan, including manufacturing. Besides providing productive job opportunities, services have major implications for the development and upgrading of Jordan's manufacturing industries in the medium term, notably in the context of global value chains. Modern services can enable more efficient and resilient supply chains and play an increasingly important role as inputs into advanced manufacturing and innovation. The growing 'servicification' of manufacturing activities is reflected in the increasingly significant share of services inputs in manufacturing value added of advanced economies (OECD, 2021^[21]). Thus, opening services to foreign investors would also help Jordan to regain a competitive edge in advanced manufacturing in the medium term.

Fairly open access for foreign investors in ICT services and electricity already involves important productivity opportunities for Jordan (Figure 2.13, Panel B). Yet, investment in both sectors remains far below potential, although their relative investment shares have improved compared to other sectors in recent years (see Section 2.3). Jordan's ICT sector is expected to generate USD 18 billion worth of investment until 2040 (OECD, 2021^[22]). In a world of digital transformation, the ICT sector and digital services in general will be critical to enable Jordan to maintain competitiveness in any economic activity. Jordan's digital reform agenda REACH 2025 should therefore receive highest priority. Similarly, boosting investment in the electricity sector – notably in renewable electricity generation – can support Jordan's ambitions to lower the carbon footprint of the economy (Chapter 5) and would help reduce electricity costs, still constraining productivity in manufacturing today.

Beyond FDI restrictions, there are several 'behind-the-border' regulatory elements (e.g. intellectual property rights protection, as well as competition and labour market policy) that are influencing investment in services and thus Jordan's potential for productivity growth (OECD, 2021^[1]). A detailed assessment of these aspects goes beyond the scope of this chapter. The inclusion of Jordan in the OECD's Services Trade Restrictiveness Index would allow to identify specific reform opportunities. Some directions are nonetheless provided. After constituting and amending several laws and regulations in compliance with international commitments to protect IPR in the 2000s, Jordan currently ranks fairly high in the World Economic Forum's index of IPR protection (rank 35 out of 141 countries, or rank 8 in MENA region) (World

Economic Forum, 2017^[23]). In terms of competition policy, Jordan has made efforts to improve the level playing field for all economic actors since the adoption of the Competition Law in 2004 (Speelman, 2016^[24]). A Competition Directorate was also established within the Ministry of Industry, Trade and Supply to formulate and implement product market regulations affecting the quality of competition. The 2011 amendment of the Competition Law further extended the mandate of the Directorate to conducting market research, examining complaints, and reporting violation to the judicial system. In terms of bankruptcy laws and regulations, the Reorganisation, Bankruptcy and Liquidation Law was approved in 2018, aiming to establish a legal framework for distressed companies (OECD/European Union/ETF, 2018^[14]). Labour market regulations in Jordan are not identified as a major constraint for the private sector and are discussed in more detail in Chapter 3.

Figure 2.13. FDI regulatory restrictiveness



Note: MENA8: Algeria, Egypt, Jordan, Lebanon, Libya, Morocco, Palestinian Authority, and Tunisia.

Source: OECD FDI Regulatory Restrictiveness Index 2018-19.

2.5.2. The business climate in Jordan is better than in some of its peers in MENA but some challenges remain

A conducive business climate is a pre-requisite for growth and productivity and Jordan has made notable improvements in recent years by facilitating business procedures and streamlining regulations, particularly in the area of access to finance. In 2020, Jordan has most notably enhanced support for local SMEs in the area of access to finance with the establishment of dedicated funds and credit provision schemes (see discussion of targeted policies below). These efforts resonate with businesses on the ground, which consider access to finance less of a constraint compared to businesses in other MENA economies (see Section 2.3). However, starting a business in Jordan still involves complicated procedures and remains a key constraint for many businesses. In a first step, firms need to register at the Companies Control Department in the MoITS. Business owners are subsequently required to register the business in several different authorities (e.g. tax office, chamber of commerce, municipality office, and social security). Jordan could learn from streamlining efforts done by Tunisia in this area. Tunisia's industrial and innovation promotion agency, Agence Nationale de la Promotion de l'Industrie et de l'Innovation, or APII, functions as a one-stop-shop for business owners. Once business owners submit necessary documents and pay fees, all the administrative registrations, such as commercial registry, tax authority, social security or labour inspectorate are processed by APII.

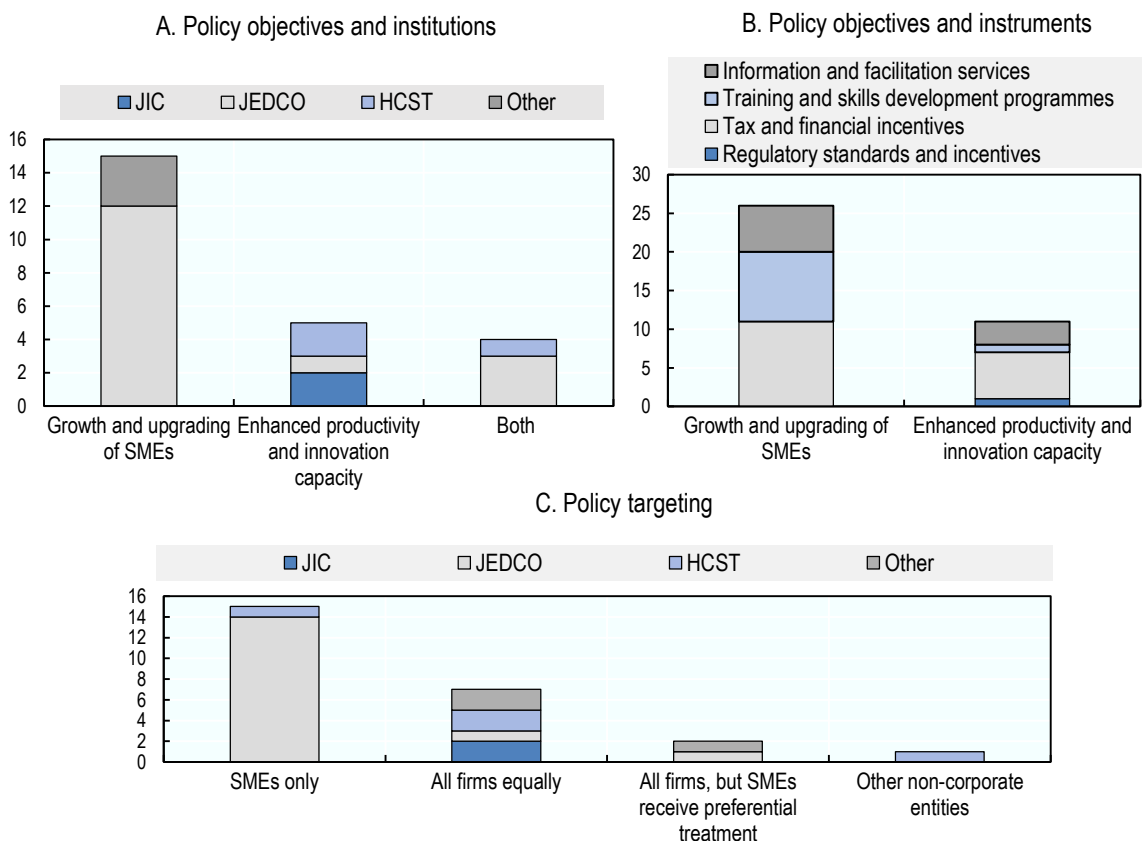
Streamlining the regulatory environment for SMEs could also further improve the business climate and thus enable SME productivity growth. Jordan has issued several regulations to support SMEs, including the Ministry of Industry and Trade Law (1998), the Chamber of Industry law (2005), the Investment law (2004) and the JEDCO law (2008) which specifies the vision and mission of JEDCO as the national agency to support enterprise development. The 2015-19 National Entrepreneurship and SME Growth Strategy aimed to foster job creation and income generation by promoting business start-ups and improving the performance and growth of existing SMEs, but it was never officially approved by the Cabinet (OECD, 2019^[25]). Recently, the national five-year plan, JGEP 2018-22, also addressed this concern and included a dedicated chapter on SME development. Among several actions, the plan aims to accelerate regulatory reforms with an overarching new law on SMEs, which could help reduce fragmentation of the regulatory environment for businesses in Jordan. Recent analysis suggests that policy efforts may not suit the needs of business owners and could be improved through strengthened public-private dialogue in the policy making process (GIZ, 2019 and Section 2.4).

2.5.3. The upgrading of SMEs rather than FDI-driven productivity growth and innovation appears to be the main objective pursued by Jordan's policy mix

In Jordan, the policy mix relies mainly on programmes that aim to strengthen the growth and upgrading of local SMEs while less policy attention goes into enhancing productivity and innovation of the economy as a whole through FDI. As described in the next section, this is mainly due to the lack of policies that target productivity-enhancing and R&D-intensive investments, and the general disconnect between the investment promotion and innovation policy domains (see Section 2.4). In fact, more than 50% of policy initiatives implemented by MoI, JEDCO and HCST focus on strengthening the absorptive capacities of Jordanian SMEs through measures that aim to upgrade entrepreneurial skills, promote SME internationalisation activities and help SMEs become more competitive and productive (Figure 2.14, Panel A). The policy mix also presents a relatively high degree of selectivity with more than 70% of policy initiatives targeting SMEs only or providing preferential treatment to them in the form of additional financial support, more lax requirements and conditionalities, and prioritisation in their selection as recipients of public support (Figure 2.14, Panel C). Financial incentives as well as supplier development programmes are the most common types of policies used for that purpose, while information and facilitation services are also part of several initiatives that aim to raise SME awareness of internationalisation and business-to-business partnership opportunities (Figure 2.15, Panel B).

Figure 2.14. Main objectives pursued by Jordan’s policy mix per institution and type of policy instrument

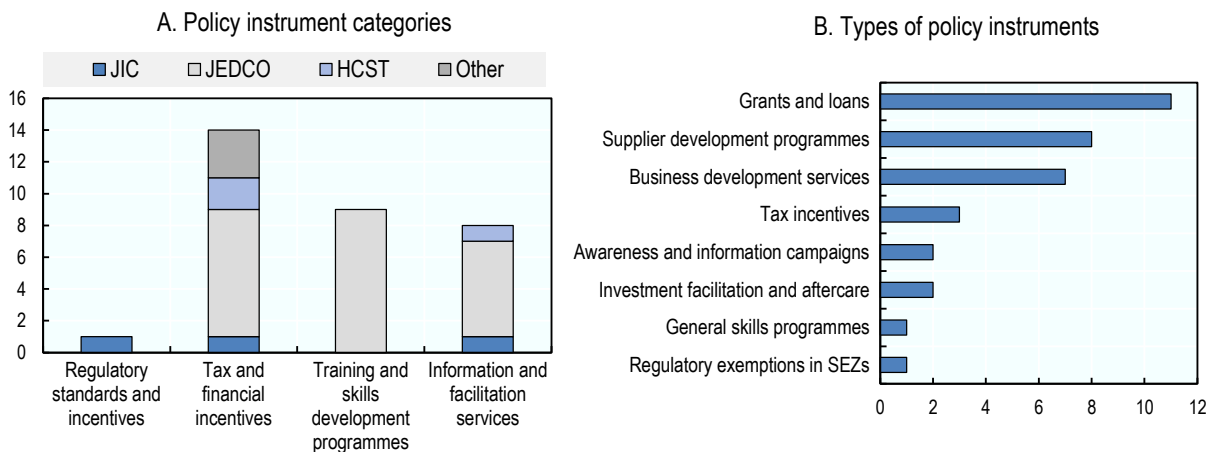
In number of policy initiatives



Source: FDI Qualities mapping of policies and institutions in Jordan (2021).

Figure 2.15. Policy instruments used by Jordanian institutions to strengthen FDI impacts on productivity and innovation

In number of policy initiatives



Source: FDI Qualities mapping of policies and institutions in Jordan (2021).

Given its mandate to support entrepreneurship and the competitiveness of domestic enterprises, JEDCO implements the majority of policies that aim to strengthen the absorptive capacities of Jordanian SMEs, focusing in particular on improving their export capacities. The “Accelerate with JEDCO” programme provides business diagnostic and coaching services to help SMEs and start-up managers identify and address barriers to growth. Increased emphasis is also placed on providing technical and financial support to manufacturers and exporters of agricultural products in order to increase their integration into domestic and global value chains (GVCs). However, preliminary findings from the FDI Qualities mapping of policies and institutions show that several financial support schemes for SMEs have been discontinued in recent years as a result of the wider economic context in Jordan which has been highly affected by the large number of refugees coming from neighbouring Syria (OECD/European Union/ETF, 2018^[14]). Some of JEDCO’s flagship support programmes such as the Jordan Upgrading and Modernisation Programme (JUMP), the Jordan Services Modernisation Programme (JSMP), and most recently the Governorate Development Fund (GDF) have been discontinued due to budget constraints.

Although the current policy mix remains oriented primarily towards SME growth and upgrading, efforts to consolidate Jordan’s research and innovation ecosystem have intensified in recent years. Emphasis has been placed on increasing the financial support allocated for R&D and enhancing access to finance for innovative SMEs. The National Fund for Supporting Small and Medium Enterprises (NAFES) and the Industrial Scientific Research and Development Fund (IRDF) support Jordanian industries to invest in science and technology and improve their productivity and innovation capacity. The Innovative Startups and SMEs Fund (ISSF) was also established in 2017 as a private sector managed fund supported by the Central Bank of Jordan and the World Bank to promote investments in innovative startups and early stage SMEs (Table 2.1).

Despite recent improvements in the availability of risk capital for entrepreneurs, more could be done to improve the provision of technical assistance, information and facilitation services to domestic firms that want to further develop their innovation and R&D capacities and serve as suppliers and partners of foreign affiliates. A more comprehensive approach to enhancing domestic innovation capacities could address issues that go beyond access to finance such as the availability of qualified human capital, the establishment of innovation networks and clusters, and the potential of the country’s knowledge transfer infrastructure (e.g. universities, research centres, etc.) to foster greater linkages between foreign R&D-intensive MNEs and the domestic research and innovation ecosystem.

Table 2.1. Funds available for entrepreneurs and SMEs in Jordan

	Industrial Research and Development Fund (IRDF)	National Fund for Enterprise Support (NAFES)	Innovative Startups and SMEs Fund (ISSF)	Governorate Development Fund (GDF)
<i>Affiliating institution</i>	HCST	HCST	Central Bank of Jordan / World Bank	JEDCO
<i>Establishment</i>	1994	2001	2017	2012
<i>Mandate</i>	Supporting Jordanian industry actors to invest in science and technology in production processes and industrial management, product quality and development, and eventually improve the competitiveness of Jordanian industries.	Supporting Jordanian SMEs to become more efficient and competitive, through developing SMEs’ administration, financial and human capacities.	Promoting entrepreneurship by providing early stage finance for innovative SMEs and by encouraging entrepreneurship through outreach to potential entrepreneurs across Jordan	Improving the social development and enhancing the living conditions of the governorates by introducing financing tools and investing in income generated projects identified by the local community

Source: Websites of each fund, the HCST and JEDCO.

Since its establishment in 2016, it has been unclear what role the National Center for Innovation (NCI) plays in the implementation of innovation promotion policies and how these policies are aligned with business innovation support programmes implemented by JEDCO. In 2021, the NCI launched its flagship Jordan Open Innovation Platform (JOIP), which aims to serve as the country's main online technology platform. According to NCI's founding objectives, the JOIP will provide information on Jordan's innovation ecosystem, build connections and allow public and private sector stakeholders to identify opportunities for technology partnerships (JOIP, 2021^[26]). It will also serve as a feedback mechanism to policy makers by collecting and making available data for monitoring and evaluating innovation activities and identifying market gaps and opportunities. The establishment of such a platform is a step in the right direction as it could address information barriers and bridge current gaps in the co-ordination of innovation services and relevant policies. Ultimately, its effectiveness in stimulating knowledge-intensive investments and forging business-to-business and science-to-business linkages will depend on its uptake by public and private sector actors as well as the quality of the online services provided. As the platform is being operationalised in the first months of 2022, the NCI should ensure that it is sufficiently user-friendly and that relevant stakeholders, including foreign investors and local SMEs, are aware of its functionalities. Leveraging existing business networks managed by MoI and JEDCO to raise awareness of the platform could contribute to achieving more impact.

With recent policy efforts going into revamping Jordan's institutional framework for STI policy, the interaction among different bodies in charge of innovation policy should be facilitated and the role and mandate of HCST and NCI vis-à-vis other institutions clarified. For instance, JEDCO already operates a network of incubators and innovation centres, which provide consulting services to entrepreneurs who want to benefit from technology transfer services, such as applying for patents, managing and implementing innovative projects and developing competences on the financial, legal and accounting aspects of technology adoption. It will be important to prevent duplication of services, reduce inefficiencies in providing support to the private sector and improve collaboration between new and existing innovation-focused entities (see Section 2.4).

2.5.4. Investment promotion policies are not conducive to attracting productivity-enhancing and knowledge-intensive FDI

Investment promotion policies can play an important role in enhancing FDI impacts on productivity and innovation by focusing on attracting FDI in more productive and innovative activities and in sectors with high absorptive capacities and, therefore, greater spillover potential.

In Jordan, investment attraction efforts are broad and have not been focused on FDI projects with the greatest potential for productivity growth and innovation (Figure 2.16). Although financial incentives available to foreign investors target certain R&D-intensive industries such as the chemicals, pharmaceuticals and electronics sectors, their scope is focused exclusively on manufacturing activities, which exhibit, on average, the lowest labour productivity levels across all sectors in Jordan (see Section 2.3). In fact, a survey of 302 investors conducted by the World Bank and JIC in 2016 found that the sectors that received the highest number of investment tax relief between 2011-15 were: food and beverages (17% of the total number of incentives received); chemicals and pharmaceuticals (15%); textile, clothing and leather (14%); and computer, electronics, machinery and metal products (13%) (JIC/World Bank Group, 2016^[27]).

Box 2.4. Tunisia's Start-up Act

The Start-up Act adopted in April 2018 is the national initiative undertaken by Tunisia to develop a dynamic ecosystem of raising start-ups and enhance innovation in the country. Tunisia's Start-up Act is composed of several schemes for supporting entrepreneurs, such as tax incentives, salary compensation for employees for a certain period, as well as securing the professional post of the entrepreneurs in the organisations they belong to during a leave for their engagement in a start-up. The success of Tunisia's Start-up Act owes to its bottom up process of policy making. The original ideas of the policy components were collected by the Ministry of Communication Technologies and Digital Transformation through hearings with stakeholders already involved in the innovation ecosystem, such as entrepreneurs, investors, academia and public sector. When a government adopts a new policy especially on the topics like start-up or innovation, it is critical to establish a trusting relationship between policy makers and key stakeholders first, so that policy makers understand the true needs of those concerned and establish regulations and programmes that can meet their demands.

Tunisia saw 165 registrations of domestic start-ups and raised USD 18.5 million in 2019 as a result of the Start-up Act. In Africa, where the economic impact of SMEs and the informal sector is significant, the mechanisms like Start-up Act have a possibility to create the enabling environment for these actors to continue and expand their business, which can contribute to resolving societal challenges in Africa such as youth unemployment. Senegal, Kenya and Rwanda have all followed the successful implementation of the Act in Tunisia, and adopted or are on the way to adopt a similar mechanism in each country.

Although there is no systematic approach to assess the overall importance of these financial incentives in influencing investors' locational and sectoral decisions, these findings highlight the need to re-consider the sectoral targeting of investment incentives to attract FDI in sectors with higher labour productivity, in particular services such as finance, ICT and business services, transport and logistics, creative industries and energy generation that could lead to better productivity outcomes for the Jordanian economy (Section 2.3, Figure 2.4). The sectoral targeting of investment attraction policies could also build upon the priority clusters that have been identified in Jordan's National Innovation Strategy 2013-17, which places particular emphasis on medical services, ICT, banking and finance, education and career guidance services, as well as architecture and engineering (Government of Jordan, 2013_[28]).

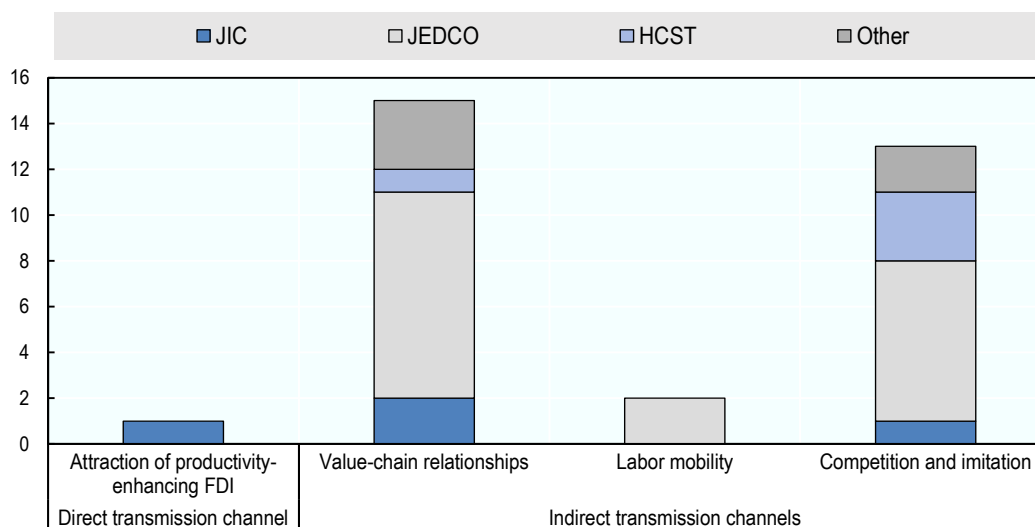
Beyond sectoral considerations, Jordan could also benefit from a more systematic targeting of innovation-oriented FDI, focusing in particular on investments in R&D- and skill-intensive activities that can be supported by an increasingly skilled workforce and a significantly internationalised SME sector (see Section 2.3). Currently, there is a disconnect between investment promotion and innovation policies, which is likely due to Jordan's relatively nascent research and innovation support ecosystem and the scope of MoI's mandate which does not cover innovation promotion. Financial incentives for investment are tied to conditions related to job creation, promoting women's employment and supporting the upgrading of SMEs only; while the regulatory support provided to foreign investors through MoI's Investment Window – the one-stop-shop for simplifying and expediting licensing procedures for investment projects – does not consider the impact of investments on innovation/R&D as important to prioritise investment projects.

Jordan could consider shifting the scope of investment incentives to encourage FDI in R&D activities and foster greater collaboration between foreign affiliates and entities of the domestic research and innovation ecosystem, including innovative SMEs, startups, universities and other R&D organisations. MoI could also play a more active role in mainstreaming productivity and innovation policy issues into its investment promotion activities. The agency has recently established a new unit to provide facilitation services on issues relating to innovation and entrepreneurial growth. Although this is a step in the right direction, more

impact could be achieved through collaboration with other innovation-focused parts of the government that have relevant expertise. The recent launch of the Jordan Open Innovation Platform provides an opportunity to foster greater synergies between MoI and NCI and achieve greater alignment of resources, policy objectives and actions across the investment and innovation policy areas.

Figure 2.16. The transmission channels supported by Jordan’s policy mix to strengthen FDI impacts on productivity and innovation

In number of policy initiatives



Source: FDI Qualities mapping of policies and institutions in Jordan (2021).

2.5.5. Investment facilitation and aftercare services remain disconnected from policy efforts to build MNE-SME value chain linkages

Investment facilitation and aftercare services can be instrumental in encouraging greater embedding of foreign affiliates in local economies and building relationships that contribute to greater use of local SME suppliers. MoI does host an aftercare unit within its Investor Services Directorate; however, evidence from the 2018 OECD Survey of Mediterranean Investment Promotion Agencies shows that MoI concentrates its resources primarily on investment attraction rather than facilitation and aftercare. More than 73% of the agency’s budget is allocated to image building and investment generation activities (66% on average for Mediterranean IPAs), while only 9% goes into investment facilitation, aftercare and retention (22% on average for MED IPAs) (OECD, 2019^[12]). MoI’s increased focus on bolstering Jordan’s image as an investment destination can be explained by the considerable competition that the country faces from other emerging markets to attract foreign investors and the political and security challenges in the region that have had an adverse effect on investment.

The need for an integrated and comprehensive set of aftercare services is, however, illustrated by the limited local sourcing of foreign affiliates, and the implications that this may have for potential knowledge and technology transfers to domestic SMEs (see Section 2.3). Although now a bit outdated, a 2016 World Bank report pointed towards significant weaknesses in the effectiveness of MoI’s aftercare services, which were primarily focused on administrative issues and did not address investor grievances and operational problems (JIC/World Bank Group, 2016^[27]). In recent years, MoI has received technical assistance from its international development partners, namely the World Bank and the European Bank for Reconstruction and Development (EBRD), to enhance its capacities and the quality of the services provided to foreign

investors. For instance, new rules were introduced and a committee was established within the agency to deal with investor grievances resulting from government decisions. Efforts to improve the internal governance of aftercare services should continue and be coupled with sufficient resources and dedicated staff that is trained to identify the sourcing needs of foreign investors and steer FDI projects towards locations with the greatest potential for supporting supplier linkages.

Furthermore, although value chain linkages are the main FDI transmission channel supported by Jordan's policy mix (Figure 2.16), programmes supporting supply chain development appear to be disconnected from MoI's facilitation and aftercare activities, and from FDI policy more broadly. JEDCO, in collaboration with local chambers of commerce and business associations, implements the flagship National Linkages Programme, which connects large manufacturers with local SME suppliers, facilitates their interaction and provides technical and financial support to ensure that locally sourced inputs meet the needs of domestic MNEs. A wide range of other supplier development programmes are also implemented to help SMEs in the industrial, services and agricultural sectors to export and integrate into GVCs. Since 2017, JEDCO and the HCST have also joined the EU's Enterprise Europe Network (EEN) and set up a consortium to provide support for companies seeking to partner with European firms for the implementation of R&D and technology transfer projects.

However, the current divide between JEDCO's supply chain development programmes and MoI's facilitation and aftercare activities may increase information barriers and undermine efforts to align domestic SME absorptive capacities with the needs of foreign investors. Jordan could consider increasing the focus of FDI policy on the potential for SME supply chain development by expanding aftercare activities and strengthening MoI's policy footprint on issues that shape the absorptive capacities of domestic firms. Policy co-ordination between MoI and JEDCO could be strengthened to ensure that value chain building programmes are aligned with the needs and priorities of foreign investors. Practically, this would include developing an easily accessible database of potential SME suppliers to FDI in each region; collaborating with JEDCO in the implementation of the National Linkages Programme to ensure that foreign affiliates benefit from the programme; and co-ordinating targeted supplier development programmes in FDI-intensive sectors and regions to upgrade the capacities of local firms. Box 2.5 presents policy approaches to supply chain development implemented by investment promotion agencies in OECD and developing economies.

Box 2.5. Supply chain development programmes in Portugal, the Slovak Republic and Malaysia

Portugal

In Portugal, the national investment promotion agency, AICEP, and the SME Competitiveness and Innovation Agency, IAPMEI, jointly implement the Supplier Clubs programme, which is a good example of how public policy can mobilise actors across the business ecosystem to help local SMEs collaborate with foreign affiliates (OECD, 2022^[4]). The programme combines matchmaking services to help foreign and domestic firms identify collaboration opportunities and agree on jointly implemented projects; business consulting and training programmes provided by foreign affiliates to their suppliers based on an assessment of their performance; and financial support through EU-funded incentive schemes to help SMEs upgrade their technological capabilities for the implementation of the agreed joint projects. As part of its aftercare services, AICEP implements two programmes that help foreign investors identify local suppliers, targeting traditional SMEs as well as young innovative start-ups. Several matchmaking platforms and local supplier databases are also in place to bring down information barriers and allow foreign and domestic firms to identify local sourcing and partnership opportunities. For instance, AICEP has developed a new platform, which relies on AI technology to deliver customised matchmaking services, while the National Innovation Agency (ANI) operates the Business and Technology Exchange platform, which serves as a single access point for Portuguese technology offers and requests.

Slovak Republic

The Slovak investment promotion agency, SARIO, provides matchmaking services through several programmes that target foreign firms and their affiliates, including the flagship Business Link events and the Slovak Matchmaking Fairs, which are implemented under the auspices of the Ministry of Economy (OECD, forthcoming^[3]). Several sourcing and co-operation events are also organised throughout the year as part of the National project “Support of the internationalisation of SMEs 2017-23”, geared to help SMEs access global value chains (GVCs). Many of these matchmaking services target FDI-intensive sectors, focusing in particular on manufacturing (e.g. engineering, automotive, transport, chemicals, and energy). In recent years, investment facilitation and aftercare services have focused on encouraging foreign and domestic firms to collaborate on the implementation of R&D and technology-based projects. SARIO has established an Innovation Services Platform, which connects some of its most technologically advanced foreign clients with innovative Slovak firms to undertake R&D. An Exports Academy also operates within SARIO, organising seminars, practical trainings and knowledge exchange workshops to help the Slovak entrepreneurs improve their sales strategies.

Malaysia

Malaysia offers various incentives to encourage linkages between foreign investors and local SMEs (OECD, 2019^[29]). Under the Industrial Linkage Programme, investors can claim tax deductions for costs involved in providing support to local suppliers, including training, product development and testing, and factory auditing to ensure local supplier quality. A Global Supplier Programme offers financial and organisational support to MNEs, if specialists from their foreign affiliates are seconded to local firms (for up to two years) for the purposes of local upgrading. The programmes in Malaysia have influenced Intel in its decision to develop local SMEs as suppliers. Intel is reported to have developed a model for supporting supplier development and upgrading: potential suppliers are selected based on the quality of their management; human resources; technical, materials and process capabilities; and cost competitiveness. They are then provided with training and opportunities to supply the affiliate and ultimately, the global Intel network.

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Notes

¹This report is using Egypt, Morocco, Tunisia, Portugal and the Slovak Republic as comparators. The MENA peers were chosen based on their relative economic performance within the region, while Portugal and the Slovak Republic serve as peers given their comparable economic size, structure and outward orientation.

² This report uses two measures of labour productivity. The first measure defines productivity as “value added per person employed” (see Figure 2.1 and Figure 2.4 for example) and is primarily used in this chapter. The second measure defines productivity as “value added per USD spent on labour compensation” and is used in Figure 2.2. For the first measure, labour productivity levels are skewed towards better paid activities which is corrected in the second measure.

³ The cross-country comparison in terms of productivity levels is assessed based on data from World Bank’s World Development Indicators and is not reported in the figure (World Bank, 2021^[30]).

⁴ While foreign firms in Jordan are on average more productive than domestic ones, evidence from firms listed on the Amman Stock Exchange shows that foreign acquisitions of domestic firms do not result in productivity improvements, at least not in the short run (Tayem, 2015^[31]).

3 **Strengthening FDI impacts on job quality and skills**

This chapter assesses labour market challenges in Jordan and the potential of FDI to enhance job quality and skills development. The chapter presents the governance framework and policy mix that supports the impact of investment on labour market outcomes – focusing on institutional arrangements and policies at the intersection of investment, employment and skills development. The chapter applies the forthcoming OECD FDI Qualities Policy Toolkit.

3.1. Summary

The Government of Jordan puts high policy priority on foreign direct investment (FDI) as a driver for quality job creation and skills development. The employment rate is low by international standards, with many people in informal and low-paid jobs, and many young graduates unemployed, particularly women (see Chapter 4). Insufficient job creation through private investment, combined with an increasing labour force and considerable skills imbalances, are the main structural challenges facing the labour market in Jordan – challenges that the influx of Syrian refugees and the COVID-19 pandemic are exacerbating. The public sector is no longer absorbing a large number of new graduates, unlike in the past, but continues to offer more attractive working conditions than the private sector, thereby limiting labour mobility.

FDI in Jordan has advanced job creation, improved living standards and developed workers' skills, but its impact has been limited and not all segments of the population have benefited equally. Over the last two decades, employment gains from FDI were largest for foreign workers in low-wage sectors such as construction, manufacturing or tourism and, since recently, for the highly skilled Jordanians working in better-paid sectors such as ICT and finance. Despite improving educational attainments, inconsistency between curricula and evolving employers' needs are preventing Jordan from reaping the benefits of FDI, including services FDI that digitalisation and recovery from COVID-19 are likely to boost. Labour market gains from FDI remain off limits to low and medium-skilled Jordanian job seekers, who do not always have the incentives and skills to compete with foreigners on low-wage jobs in sectors with challenging, albeit improving, working conditions such as the apparel or chemicals industries, the country's top export sectors.

Recognising the benefits that FDI can bring, the government has advanced meaningful reforms in the past decade that are conducive to investment (OECD, 2021^[1]). While these reforms can influence the FDI entering the host country and its labour market implications, complementarity with labour and skills development policies is needed for investment to further support a job-led recovery – foreign firms in Jordan adapted faster than their domestic peers to new ways of working during the pandemic. This chapter provides an overview of government strategies, the institutional setup and policies at the intersection of investment, employment and skills development and evaluates to what extent they are conducive to enhanced and more inclusive labour market outcomes. Key policy considerations are summarised below.

Policy considerations

- **Align strategies and reforms on investment, employment and skills development,** including the revision of the 2014 Investment Law and the forthcoming investment promotion and employment strategies, with priority sectors of Vision 2025 and other national plans, particularly high-wage, high-skill and labour-intensive sectors. Skills strategies should provide policy clarity by better linking education and employment priorities and how they jointly respond to employers' skills needs, particularly in rapidly changing occupations and sectors such as ICT. Strategies should provide clear policy directions on how FDI can improve labour market outcomes, set explicit goals and clarify responsibilities across government bodies.
- **Strengthen inter-governmental co-ordination and promote joint initiatives.** No mechanisms are exclusively dedicated to co-ordination between ministries dealing with labour and skills policies and the Ministry of Investment (Mol). Existing mechanisms such as the Investment Council (IC) could be adapted to fill this co-ordination gap and ensure strategic alignment across the policy areas – the presence of the Minister of Labour should help achieve some policy coherence. Governing bodies of newly created committees or councils aiming at addressing labour and skills-related challenges could be more inclusive to support collaborative

decision-making. At the implementation level, there is limited co-ordination or joint policy programming between MoI and the main bodies delivering employment and training support.

- **Reassess existing restrictions on foreign investment against policy objectives of stimulating labour demand, particularly in the job-creating services sectors.** Statutory restrictions on foreign ownership exist in business services, distribution, transport and logistics, and tourism sectors where FDI projects have the potential to create direct and indirect jobs for both the low and highly skilled Jordanian youth. Joint venture requirements can push foreign investors not to deploy their frontier technologies and best business practices, in turn limiting better-paid job creation. Pursuing wider pro-competition reforms will contribute to create a more dynamic private sector, allow for a better reallocation of resources and raise incomes.
- **Pursue labour market reforms that are conducive to investment and labour mobility and that promote a better working environment.** This includes addressing wage-setting distortions, simplifying regulations on the hiring of foreign labour and strengthening collective bargaining rights. Labour market segmentation by nationality (Jordanians or non-Jordanians), status (public or private jobs) and gender (Chapter 4) reduces mobility from public to private sector jobs, worsens informality and leads to inefficient labour reallocations following FDI entry. Furthermore, existing regulations prohibit union pluralism and prevent foreign workers from forming unions while they are a significant part of the workforce of foreign firms in Jordan.
- **Improve investment promotion and facilitation** by providing clear information to investors on local labour market characteristics, labour regulations, available training programmes and employment incentives and, through the Investment Window, accompany them in getting the relevant work permits. Furthermore, set Key Performance Indicators (KPIs) to identify and prioritise investments of higher job quality and that can contribute to upskilling. Targets should be coherent with national strategies and realistically reflect the country's skill base.
- **Raise awareness about international labour standards and incentivise companies to disclose their compliance with them.** The National Contact Point (NCP) for responsible business conduct, hosted by MoI, has been largely inactive. The government should strengthen the NCP capabilities to help him fulfill its mandate of, inter alia, disseminating guidance to MNEs on labour standards and due diligence in supply chains. The Amman Stock Exchange (ASE) developed a set of indicators to encourage listed companies disclose their ESG performance, including labour outcomes, but information is not yet fully available online.
- **Provide integrated active labour market policies (ALPMs) that are adapted to investors' needs and support the most vulnerable.** With FDI shifting from low-wage manufacturing activities to more skill-intensive services, ALPMs could be expanded to also support the high-skilled youth – ALPMs currently largely target the lower and mid-skilled. This includes upskilling the educated youth while retraining vulnerable groups working in sectors adversely affected by competition, providing more targeted job search services, including transport subsidies, and increasing their outreach, and favouring tax incentives based on companies' labour market performance and promoting the transition of young graduates to a first-work experience.
- **Put in place robust labour market information and skills anticipation systems that involve investment actors** to design evidence-based employment and training policies and effectively monitor their impacts. Multiple initiatives exist but they are scattered across several institutions and provide partial information. They also do not involve MoI while this could help reduce the gap between the information produced and skills needs driven by FDI trends. MoI could bring forward its sectoral expertise to the newly established Sector Skills Councils and voice the concerns of investors in terms of skills shortages and future training needs.

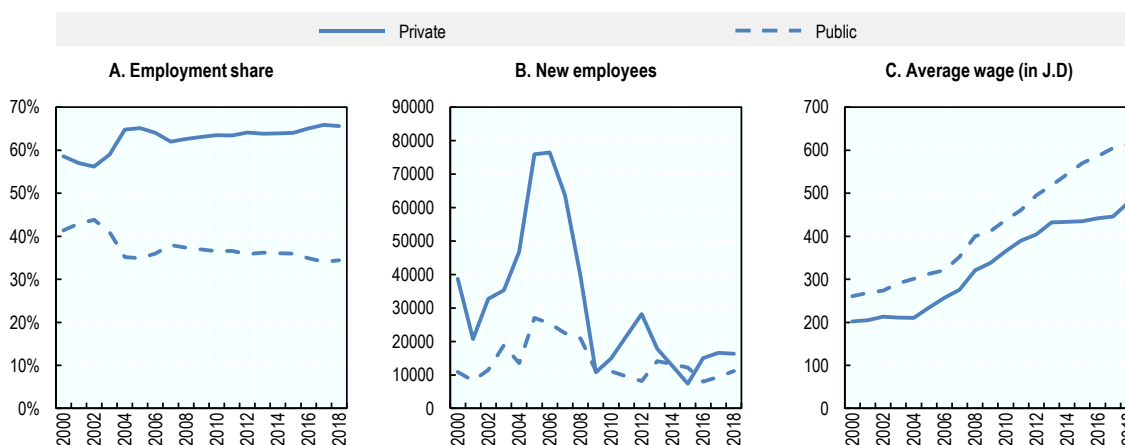
3.2. Key challenges and opportunities for the labour market in Jordan

Jordan's labour market faces daunting challenges that the regional security crisis and the COVID-19 pandemic have exacerbated. The employment-to-population ratio went down from 36.5% to 32% between 2010 and 2020. It is one of the lowest rates in the world, including among MENA countries, and far below the OECD area ratio of 66%. The unemployment rate reached 18.5% in 2020, its highest level since the early 1990s (ILO, 2021^[2]). The rate of youth unemployment is more than twice as high as the national average, and higher than the MENA average, while one-third of unemployed young people hold university degrees. Many people are in vulnerable, informal and low-paid employment, particularly youth and women (see Chapter 4). For instance, one employee out of four was an informal worker in 2016 – nearly seven out of ten in the case of foreign workers (Assaad and Salemi, 2019^[3]).

3.2.1. The private sector is not creating enough jobs to absorb a growing labour force...

Insufficient job creation by the private sector, combined with an increasing labour force and considerable skills mismatches are behind the poor performance of the Jordanian labour market. In 2015, 39% of the employed population was working in the public sector, which is the highest rate in the MENA region and nearly twice as high as the OECD average (Assad and Barsoum, 2019^[4]). While successive reforms reduced public sector employment, the private sector did not, and still has not, filled this employment gap. The ratio of paid employees in a formal private sector job hardly increased over the past decade, while growth in new job creation in the private sector has not improved since 2010 (Figure 3.1, Panel A and B). At the same time, the labour force nearly quintupled in 40 years due to high fertility rates and sustained immigration flows (OECD, 2018^[5]). Conflicts in neighbouring countries provoked massive inflows of migrants and refugees, increasing Jordan's population by 50% over 2008-17. In 2019, legally registered foreigners represented 20% of the labour force according to Jordan's Department of Statistics (JDoS).

Figure 3.1. Public and private sector labour market outcomes in Jordan, 2000-18



Source: OECD based on Employment and Employees' Compensations Survey, Jordan's Department of Statistics (JDoS).

Developments in Jordan's economy since the 1970s, which largely mirror those in the MENA region, explain why job creation could not keep pace with the growth of the labour force (OECD, 2021^[1]). The bloated public sector and barriers to private sector development have hindered structural transformation of the economy. Structural change occurs when labour moves to the more productive sectors of the economy, so that the most productive industries gain a larger employment share at the expense of less productive activities. The opposite happened in Jordan as labour shifted from productive sectors to less efficient ones, notably construction, public and social services, while the share of employment in the

relatively productive manufacturing sector decreased (Morsy, 2017^[6]). As a result, negative structural change in Jordan reduced aggregate productivity growth (see Chapter 2) and limited the capacity of the private sector to raise incomes and improve living standards.

The inefficiencies in the allocation of resources across sectors have gradually shaped Jordan's labour market characteristics. In 2020, manufacturing and relatively productive services such as business activities and the ICT sector employed fewer people than lower-productivity activities of the public or private sector (Table 3.1) – a trend that has not changed much over the past decade. Aside from public administration, the majority of Jordanians work in the wholesale and retail industry while registered foreigners are hired to execute household-related tasks, support services activities, and work in construction or manufacturing. Furthermore, the majority of the tertiary educated work in education, health, public administration and, to a much lower extent, in other high-skilled activities such as business and financial services or in the ICT sector. Another, albeit related, facet of the inefficient resource allocation in Jordan is the wage differential between public and private sector workers (Figure 3.1, Panel C). Non-competitive wages in the private sector, along with poor working conditions, have strongly limited labour mobility from public to more productive private sector employment (World Bank, 2016^[7]).

Table 3.1. Employment distribution across sectors in 2020, by nationality and education level

	All	Nationality		Education level (only Jordanian)			
		Jordanian	Foreign	Less than secondary	Vocational training	Secondary	Bachelor and above
Agriculture	3.3	1.7	5.4	2.7	0.4	0.9	0.3
Mining and quarrying	0.4	0.6	0.2	0.7	1.1	0.6	0.6
Manufacturing	9.1	10.4	7.3	13.3	19.8	9.8	6.2
Utilities (electricity, water, etc.)	0.8	1.3	0.2	1.1	6.3	2.5	1.0
Construction	7.3	4.8	10.5	6.9	10.0	3.9	1.9
Wholesale and retail trade	10.5	14.4	5.4	18.4	24.0	15.0	7.8
Transportation and storage	3.8	6.2	0.6	9.1	9.0	5.1	2.5
Tourism	4.2	3.4	5.2	4.4	6.9	3.4	1.8
Information and communication	1.0	1.6	0.2	0.3	0.3	1.2	3.9
Financial and insurance activities	1.2	2.0	0.1	0.4	0.0	1.4	4.8
Professional, scientific & technical activities	1.8	2.9	0.3	0.3	1.1	1.5	7.4
Administrative & support service activities	10.6	1.7	22.2	2.1	0.5	2.1	0.7
Public administration and defence	15.4	26.9	0.5	32.2	11.3	32.4	16.6
Education	7.7	12.6	1.4	2.3	2.3	8.2	30.8
Human health and social work activities	3.4	5.5	0.7	1.2	1.1	8.2	10.6
Other service activities	3.0	3.2	2.7	4.0	5.8	3.1	1.9
Activities of households as employers	15.7	0.3	35.6	0.3	0.0	0.5	0.0
Other	0.9	0.4	1.6	0.2	0.0	0.2	1.0

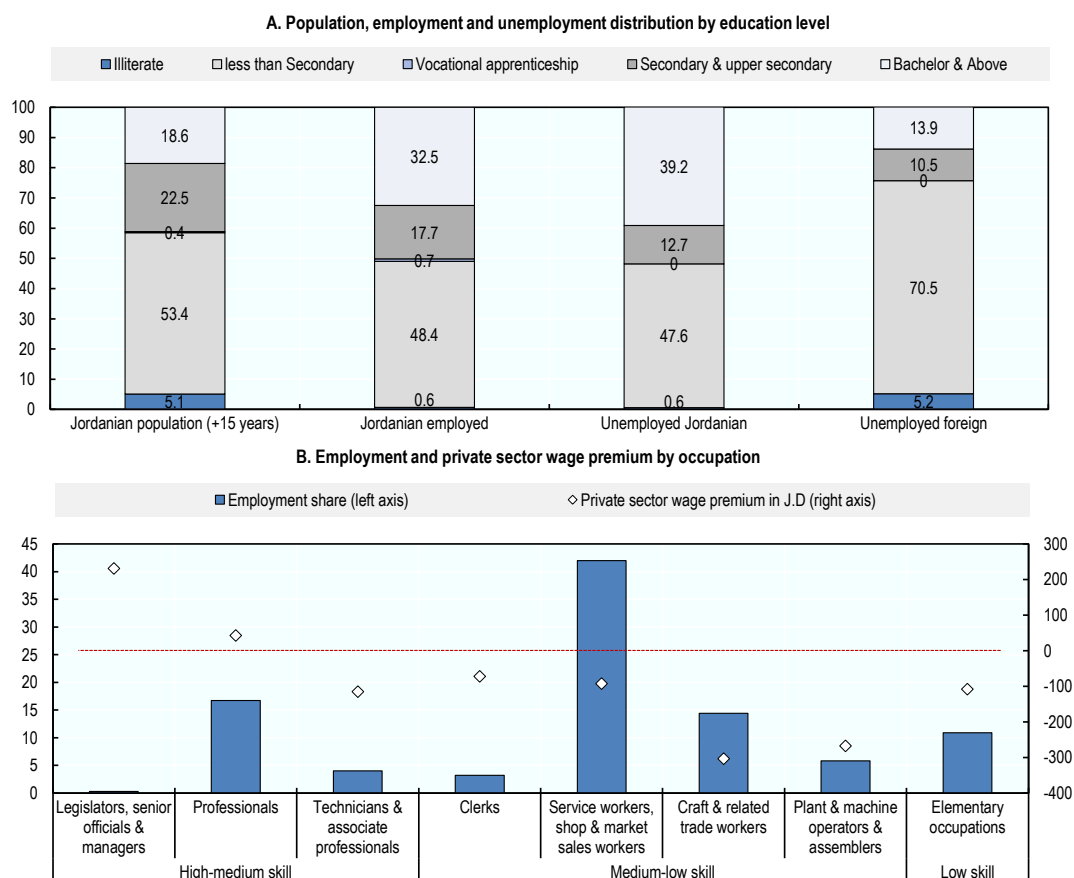
Source: OECD based on the Employment and Unemployment Survey, Jordan's Department of Statistics (JDoS).

3.2.2. ...particularly for the highly skilled and young Jordanian workforce

Notwithstanding the low level of job creation by the private sector, labour market outcomes in Jordan have also been constrained by considerable skills imbalances – a misalignment between the demand and supply of skills leading to skills mismatches and shortages. Jordan recorded massive progress in enrolment rates in tertiary education but the education system has not provided the skills in demand by employers. In 2020, nearly 19% of the Jordanian population had a bachelor degree or above but only 0.4% completed vocational education and half had less than secondary education (Figure 3.2, Panel A). In the OECD area, 39% of the population between 25 and 64 years had a tertiary degree, 26% completed vocational education and only 20% had lower secondary education or less. Jordan's National Strategy for Human

Resources Development 2016-25 indicates that the labour market is characterised by an “oversupply of university graduates and an undersupply of skilled technicians to power Jordan’s key industries”. In other terms, labour demand for high-skill workers is lower than the number of graduates while demand is relatively strong for medium to low skills (OECD, 2018^[5]).

Figure 3.2. Labour market indicators by education level and occupation type, 2020



Note: the private sector wage premium corresponds to the difference between private and public sector wages in 2018.

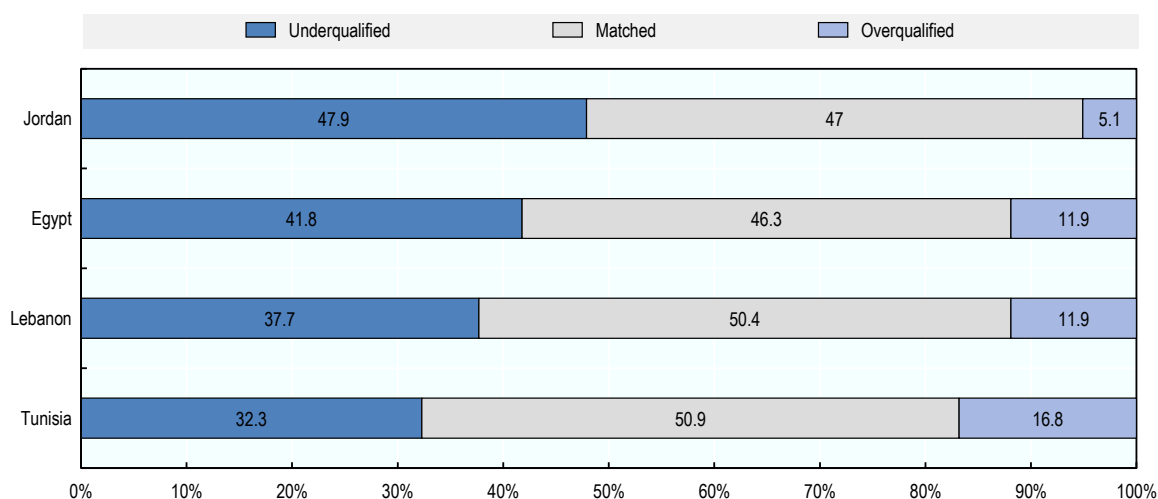
Source: OECD based on the 2021 and 2019 Employment and Unemployment Survey, Jordan’s Department of Statistics (JDoS).

The misalignment between the demand and supply of skills in Jordan has contributed to the rise of university graduates’ unemployment rate, which reached 28% in 2020 according to the JDoS, against 3.8% in the OECD area. University graduates also represented 32% of the total unemployed – 39% in the case of Jordanian citizens, which is the highest group after those with basic education (Figure 3.2, Panel A). Unlike in the 1990s, and similar to other MENA countries, the public sector is no longer absorbing the large number of young graduates. More than 300’000 people graduated from universities in Jordan between 2013 and 2018, whereas the public sector created less than 100 000 net jobs over the same period (Al-Manar Project, 2021^[8]). Although the private sector is taking over as the main engine of employment growth, most available jobs require medium to low skills, often in retail and trade, construction or the textiles industry (OECD, 2018^[5]). These jobs are often not attractive to the educated young Jordanians as related occupations tend to be less paid than similar jobs in the public sector (Figure 3.2, Panel B).

Skills imbalances in Jordan are also due to an undersupply of medium to low skilled workers. Among Jordanians in employment, most are shop, market sales, craft or trade workers but have education levels that fall short of those required for such technical job, which results in a skill mismatch (Figure 3.2,

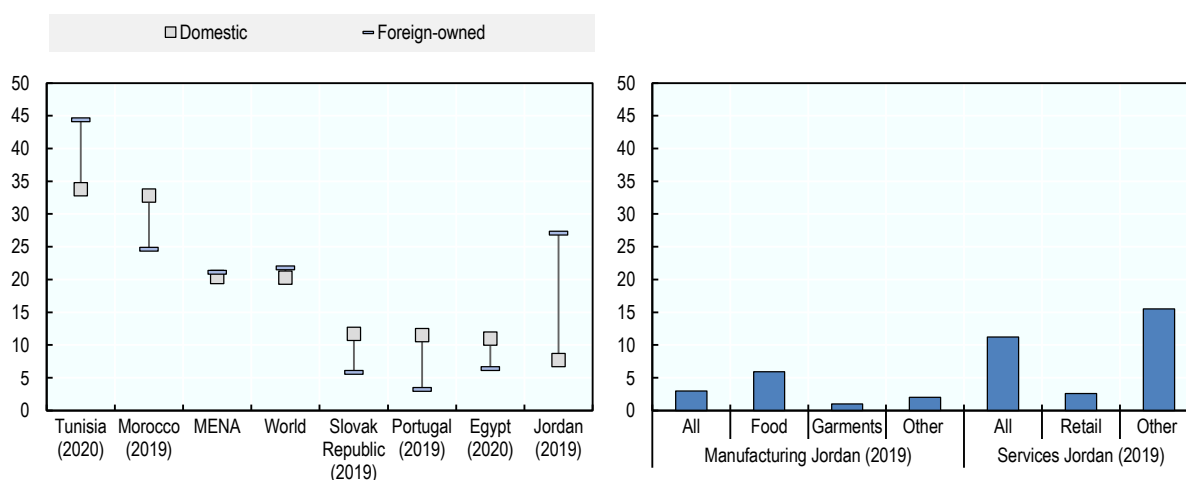
Panel B). According to an ILO survey, more than half of young workers in Jordan did not have the education levels that match their occupations – mostly young men with less than secondary education, a comparatively high share across developing countries, including within the MENA region (Figure 3.3). The level of skills mismatch of young women is lower, partly due to their higher level of education and lower labour force participation (OECD, 2018^[5]) (Chapter 4). Skills mismatches lead to higher risk of unemployment, lower wages and lower job satisfaction. They are also associated with lower labour productivity through a misallocation of workers to jobs (Adalet McGowan and Andrews, 2015^[9]).

Figure 3.3. Qualification mismatches of young workers in Jordan and other MENA countries, 2015



Note: Qualifications mismatch measures whether people have the level of education (ISCE category) corresponding to their occupation (International Standard Classification of Occupations category). See (ILO, 2019^[10]) for further information on the methodology.
 Source: (ILO, 2019^[10]) based on School-to-Work Transition Surveys 2015, ILO.

Figure 3.4. Percent of firms identifying an inadequately educated workforce as a major constraint



Source: World Bank Enterprise Surveys.

Skills imbalances imply costs for the private sector as well. Skill shortages, which relate to a situation where employers are unable to fill vacant posts for lack of suitably qualified candidates, reduce firms' productivity. In Jordan, relatively few firms identify an inadequately educated workforce as a major obstacle (Figure 3.4). However, skill shortages are more severe among foreign firms and in the non-retail services sector where

competition to hire adequately skilled workers might be stronger. Other findings for the MENA region show that skill shortages are a concern for firms that grow rapidly or that rely on university graduates (EBRD/EIB/WBG, 2016^[11]). In light of the large pool of tertiary educated in Jordan, skill shortages in firms relying on university graduates might reveal a mismatch between what students actually learn and job requirements, while shortages faced by fast-growing firms could be due to scarcities in well-trained technical workers. For instance, one survey of employers in Jordan shows that students graduating from technical streams do not meet the requirements for the jobs for which they are applying (ILO, 2019^[12]).

3.3. FDI impacts on job quality and skills development

Foreign direct investment (FDI) is an important engine of private sector growth in Jordan – the FDI stock-to-GDP ratio exceeded 80% in 2020, which is high relative to other emerging economies (OECD, 2021^[11]). Less is known about how FDI affects job quality and skills development in Jordan, although the operations of foreign firms can have widespread effects on host countries' labour markets. Evidence from other countries shows that FDI has broadly positive impacts on employment, wages and skills development, but not all countries and all segments of the population benefit equally (OECD, 2019^[13]). This section examines the impact of FDI on labour market outcomes in Jordan based on the FDI Qualities Policy Toolkit (Box 3.1).

3.3.1. FDI in Jordan is skewed towards industries with limited job creation potential

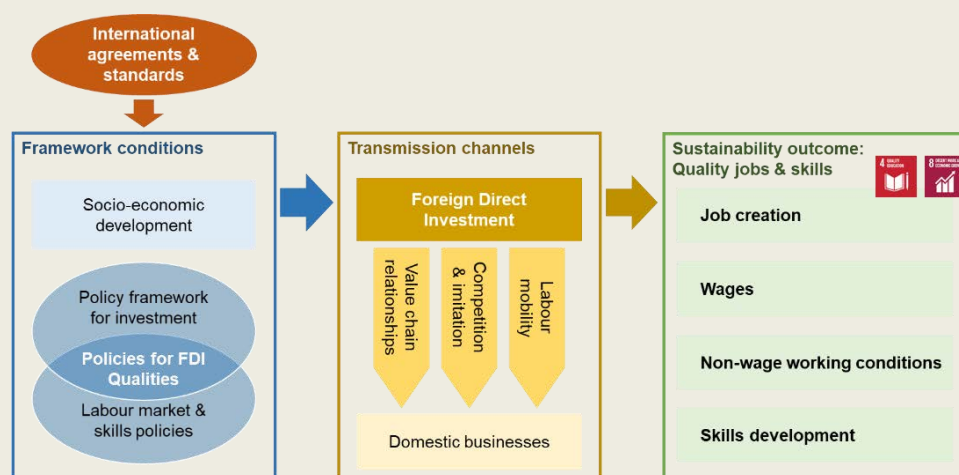
The operations of foreign firms are expected to impact labour market outcomes in different ways depending on the economic structure and comparative advantages of the host country. Greenfield investment in Jordan, which is the preferred mode of entry for foreign investors in the country, has long been concentrated in a narrow group of capital-intensive sectors with limited impact on job creation and skills development, similar to other MENA countries (OECD, 2013^[14]; 2021^[11]). Oil and gas-related power generation and construction have attracted 70% of announced greenfield FDI projects between 2003 and 2017 but accounted for less than 45% of jobs created (Figure 3.7). The other, more labour-intensive and skill-demanding sectors such as manufacturing, tourism and ICT hosted the rest of FDI-jobs, despite lower investment shares. The composition of FDI and its impact on labour demand differs from that of the wider economy. Manufacturing, energy, finance, transports, and market services such as wholesale and retail account for the greatest part of national value-added, labour compensations and employment.

The number of jobs created by greenfield FDI declined over time and became gradually weaker than in comparator countries (Figure 3.7, Panel A). This decline is driven by changing FDI patterns across sectors. Countries that recorded strong industrialisation such as Morocco, the Slovak Republic and Tunisia saw increasingly larger effects of FDI on job creation than other countries like Jordan or Egypt that have not seen an increase in manufacturing FDI relative to other sectors in recent years (OECD, 2021^[11]). Despite important liberalisation of trade and investment in Jordan and other MENA countries, instability in the region might have skewed the sectoral composition of FDI towards less risky capital-intensive sectors, thus limiting the creation of new job opportunities. The distribution of FDI-linked jobs by sector in Jordan shows that the majority of jobs have been created in construction, rather than in manufacturing, unlike in comparator countries (Figure 3.7, Panel B). The concentration of jobs created by FDI in Jordan's services sectors, which has largely increased in the past years, is comparable with other countries, except Portugal.

Box 3.1. A conceptual framework to assess the impact of FDI on job quality and skills

The entry and operations of foreign firms affect the demand for skilled and unskilled labour in the host country, with concomitant effects on employment and wages (, green box). FDI can also affect non-wage working conditions, including job security and core labour standards. FDI effects on labour market outcomes involve several transmission channels (orange box). Outcomes can result from foreign firms' *direct* operations (direct transmission channel), such as hiring new workers or firing incumbents following a foreign takeover or offering better or worse working conditions than domestic firms. Foreign firms' direct operations have also *spillover* effects arising from: (1) their value chain relationships with domestic firms, whether buyers or suppliers; (2) market interactions through competition and imitation (or learning) effects; (3) and labour mobility between foreign and domestic firms.

Figure 3.5. Factors influencing FDI impacts on job quality and skills

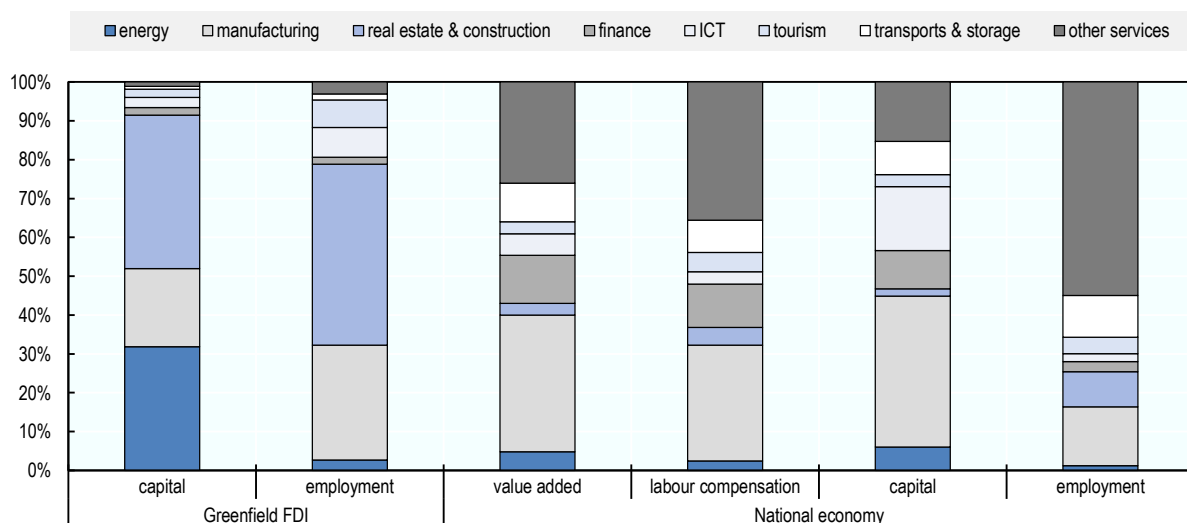


The premise underlying the existence of FDI spillovers is that foreign firms are technologically superior and, in turn, benefits might spill over to domestic firms. Value chain relationships or labour mobility between foreign and domestic firms can create knowledge spillovers, and in turn raise productivity, wages and employment. FDI spillovers on labour market outcomes are often specific to certain segments of the workforce, industries, or locations. They are also not always positive if, for instance, foreign firms have irresponsible labour practices with their suppliers or if competition for talent crowds out domestic firms. The intensity of such adverse impacts depends on how fast the labour market adjusts to external shocks. For instance, FDI hardly increases the share of skilled workers and worsens wage disparities when skills shortages are severe and labour mobility is constrained.

The direction and magnitude of the combined direct and spillover effects of FDI on labour market outcomes ultimately depends on the economic structure of the host country and domestic firms' characteristics (size, productivity level, skill-intensity, business and labour practices), labour market characteristics (employment levels, share of skilled labour, unionisation rates, etc.) and the policies and institutions in place (blue box). Whether FDI improves or undermines labour market outcomes depends also on the type of activity of foreign firms and the extent to which they export home country practices and norms or adopt instead those of the host country.

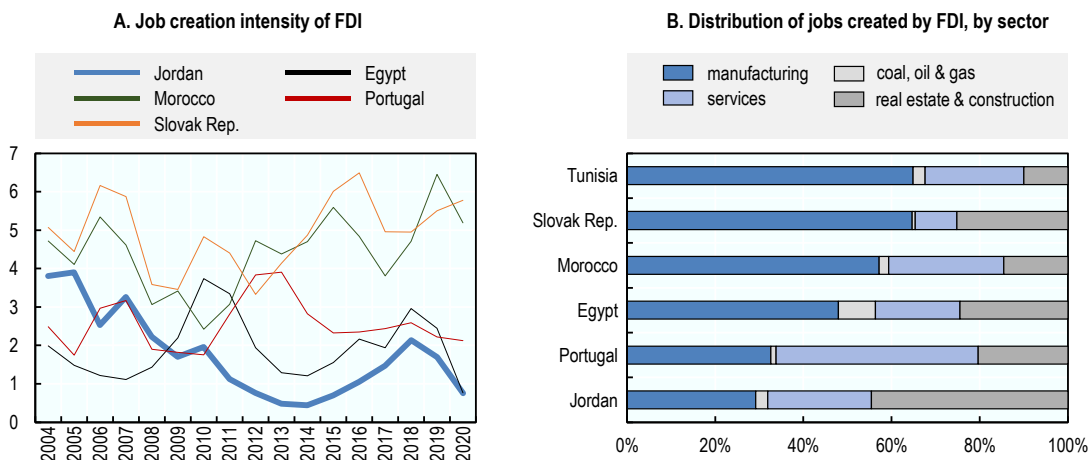
Source: OECD (2021^[15]), FDI Qualities Policy Toolkit: Polices for improving the sustainable development, <https://www.oecd.org/investment/investment-policy/FDI-Qualities-Policy-Toolkit-Consultation-Paper-2021.pdf>.

Figure 3.6. Foreign and domestic investment, value-added and labour outcomes, by key sector



Note: Greenfield FDI corresponds to announced capital expenditure (CAPEX). Number of jobs and CAPEX are partly based on estimates. Greenfield FDI variables cover the period between 2003 and 2017 and national economy variables cover the period between 2013 and 2017. Mining and fuels also covers oil and gas-related power generation. National economy data excludes “public administration and defence; compulsory social security” as defined by ISIC classification Revision 4. Source: OECD calculation based on Financial Times fDi Markets and Jordan’s Department of Statistics.

Figure 3.7. Greenfield FDI contribution to job creation in Jordan and comparator countries



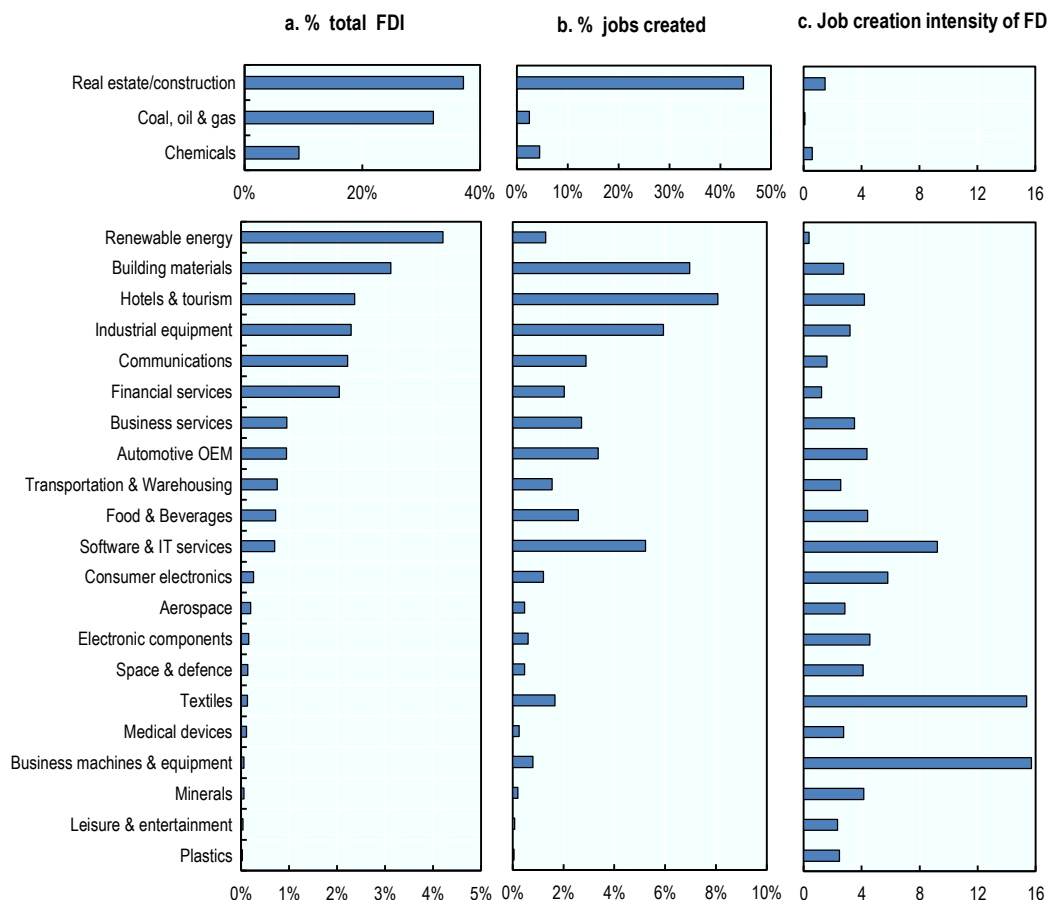
Note: Job creation intensity of FDI in Panel A corresponds the number of jobs expected to be created per USD millions of announced CAPEX. It is calculated as a 2-year moving average value. Greenfield FDI in mining and fuels also covers oil and gas-related power generation. Source: OECD calculation based on Financial Times fDi Markets, as of May 2021.

3.3.2. Emerging services sectors are attracting FDI with better labour market outcomes

While FDI improve labour market outcomes in Jordan, not all segments of the population benefit equally. Employment gains are largest for foreign workers in construction and in manufacturing and, since recently, for highly skilled Jordanians working in high-wage services sectors. Figure 3.8 provides the breakdown of greenfield FDI and its job creation intensity at the sectoral level and shows where FDI has most impact on employment. FDI in construction typically creates short-term jobs for unskilled workers and thus has limited

scope for skill-related spillovers or generating employment effects beyond construction periods. In manufacturing, most FDI-related jobs are in light industries producing chemical products (largely fertilisers), building materials (cement), food, and electronic components (Panel B). These industries often require heavy and modern equipment and are moderately labour-intensive. It is FDI in textiles that has had the highest propensity to create jobs – every USD million invested created nearly 16 jobs (Panel C).

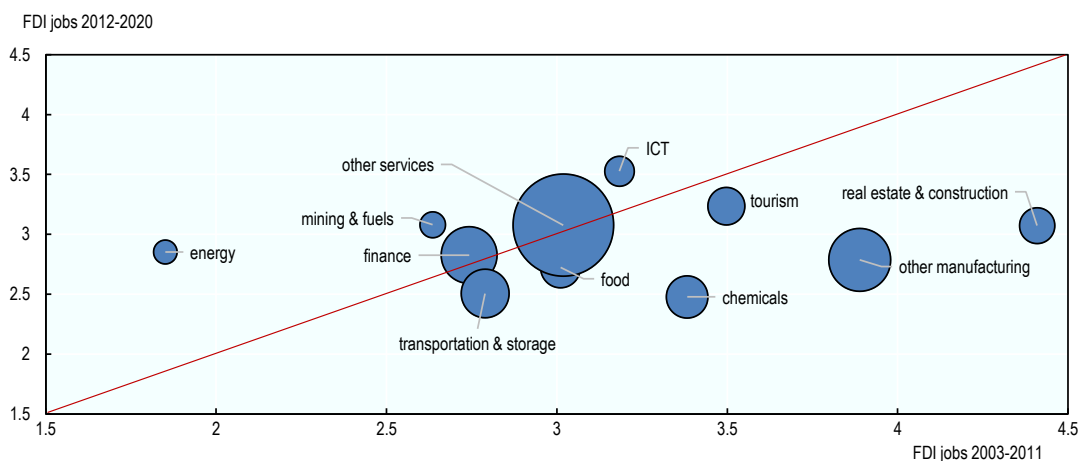
Figure 3.8. Greenfield FDI contribution to job creation in Jordan, by sector



Note: See Figure 3.5 and Figure 3.6.

Source: OECD calculation based on Financial Times fDi Markets, as of May 2021.

Despite declining FDI trends, the manufacturing sector continues to be relatively important in terms of its contribution to labour income (Figure 3.9). Foreign projects often are, however, in low-value added industries where wages are also relatively low, such as in food, textiles and the manufacturing of cement. This reflects in part the large presence of foreign workers earning less than Jordanians do, particularly in apparel where working conditions can be challenging (Box 3.2). However, the increases in labour demand that foreign manufacturing projects create within their sector of operation, and in other sectors through spillovers, could positively affect wages and increase the share of skilled workers. Jobs in the chemical industry (including fertilisers), which is Jordan's top export sector, tend to be more skill-intensive and better paid, but FDI in the sector has declined over the past years. Export expansion in this sector would have large impact on direct and indirect job creation and on incomes in Jordan (ILO, 2022_[16]).

Figure 3.9. Change in jobs created by greenfield FDI and labour compensation by sector

Note: "Other services" include, inter alia, business services, health care and education. The size of dots reflects the level of labour compensations. FDI jobs are in logarithmic values to improve the readability of the figure.

Source: OECD calculation based on Financial Times fDi Markets and Jordan's Department of Statistics.

Box 3.2. FDI in textiles and working conditions of foreigners in Qualified Industrial Zones

FDI in the garment and textiles industry in Jordan has considerably affected labour market outcomes. The industry emerged in the 1990s following the establishment of large foreign firms in the Qualifying Industrial Zones (QIZs), which are areas providing duty-free access to the US market. The regulatory framework enabled firms to bring in qualified and competitive foreign labour from South Asia – projects are exempt from income tax on salaries and allowances of non-Jordanian workers. In 2020, QIZs hosted almost 10% of private sector employment. More than 75% of workers in QIZs are foreigners.

QIZs focused on attracting FDI and boosting exports without being considered by the government as tools that can also support sustainable development. Foreign firms in QIZs did not invest in upstream segments of the textile industry (e.g. R&D or clothing design), thereby limiting the value-added generated from exports and the creation of better-paid jobs matching the supply of highly skilled Jordanians. The small profit margins associated with the garments and textiles industry also led to low levels of foreign firms' embeddedness in the local economy, and thus to higher risks of divestments.

The lack of occupational safety and health at work dissuaded Jordanian job seekers from working in QIZs, thereby limiting zones' contribution to reducing poverty and creating job opportunities for local populations. Migrant workers are not fully protected by national labour laws and lack access to social protection, which makes them highly vulnerable. Foreign workers often received lower wages than Jordanians. Furthermore, a wide range of violations of workers' rights was recorded within the QIZ, and Jordan was placed on the US State Department's List of Goods Produced by Child Labour or Forced Labour from 2009 to 2016. The government has recently undertaken several measures to improve working conditions in zones, also with the aim of attracting Jordanian job seekers.

Source: OECD (2020^[17]), OECD Investment Policy Reviews: Egypt 2020, <https://dx.doi.org/10.1787/9f9c589a-en>; Azmeh (2014^[18]), Labour in global production networks: Workers in the qualifying industrial zones (QIZs) of Egypt and Jordan, <https://onlinelibrary.wiley.com/doi/10.1111/glob.12047>; Ministry of Labour (2019^[19]), Annual Report 2019, Government of Jordan.

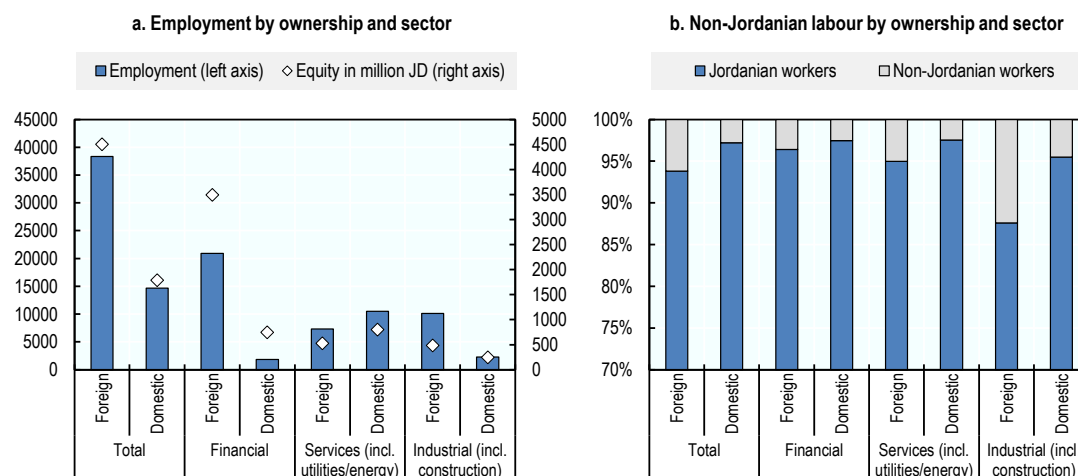
Services sectors in Jordan host the greenfield FDI projects with the highest job creation intensity. FDI projects in services accounted for 23% of all jobs created by greenfield FDI although they attracted less

than 10% of announced FDI between 2003 and 2020. Most of the jobs created in services were in tourism, ICT, finance and business services (Figure 3.8, Panel B). Furthermore, the number of FDI-jobs in services grew in 2012-20 relative to 2003-11, in contrast with manufacturing or construction (Figure 3.9). For instance, in the past decade, greenfield FDI in ICT – to a large extent in telecommunications – generated nearly twice as many jobs per million USD invested than the average sector. Other services such as health or education contribute significantly to aggregate labour income but attract little, albeit increasingly more, FDI. Aside from services, the energy sector also attracted more FDI in recent years (see Chapter 5). Direct job creation in this sector is limited, but the deployment of renewable power can support employment across the renewable value chains, particularly in remote and less developed areas (OECD, 2016^[20]).

The contribution of greenfield FDI to labour market outcomes in services sectors is aligned with Jordan's comparative advantages, which present opportunities for more rapid development of high-skill services (Hausmann et al., 2020^[21])(Chapter 2). Jobs in the growing services sectors, which digitalisation and recovery from COVID-19 are likely to accelerate, are often more skill-intensive than jobs in manufacturing and tend to be better paid, particularly in finance where more than 76% of workers held a tertiary degree in 2016 according to JDoS. Job seekers from the large pool of unemployed graduates should fill demand for these jobs, but in practice the strong mismatch between university curricula and employers' needs observed in services sectors may prevent this from happening (Figure 3.4). In a context of skills shortages, foreign entrants increase competition for talent but can crowd-out skilled labour in domestic firms, at least temporarily. Evidence suggests that these mechanisms have been at play in Jordan's ICT sector in recent years (OECD, forthcoming^[22]). As the ICT sector has grown rapidly, there has been a lag to keep abreast of the latest skills needs and around 75% of employers have difficulties finding skilled staff leading many of them to send their staff abroad to reinforce and upgrade their skills base (World Bank, 2016^[7]).

Trends in employment by foreign and domestic companies listed in the Amman Stock Exchange (ASE) sheds further light on the contribution of FDI to labour market outcomes in Jordan. Foreign companies – firms with 10% foreign ownership or more – account for 70% of ASE market capitalisation (shares owned by foreigners represent around half of market capitalisation) and 73% of employment by listed companies, which corresponds to nearly 39'000 jobs (Figure 3.10, Panel A). Foreign companies dominate the financial and, to a lower extent, industrial sectors, while domestic firms are more prevalent in services such as commercial activities or utilities. ASE market capitalisation accounted for 42% of Jordan's GDP in 2020, a share that declined since 2010 but that is higher than in Egypt (11%), Lebanon (15%) or Tunisia (21%).

Figure 3.10. Employment by foreign and domestic companies listed in the Amman Stock Exchange



Note: Foreign-owned companies include listed companies with 10% foreign ownership or more.

Source: OECD calculations based on Amman Stock Exchange database.

If most jobs in ASE listed companies are in finance, the data confirms the earlier observations that investment in manufacturing has the highest job creation intensity, followed by non-financial services such as tourism. The data also reveals that foreign firms rely more non-Jordanian workers than domestic firms do, particularly in the industrial sector (Figure 3.10, Panel B). There is limited data on the contribution of listed firms to other labour market outcomes, but a positive step was the release of ASE 2018 “Guidance on Sustainability Reporting” that encourages listed companies to disclose ESG performance. The guidance includes indicators on child labour, human rights policy, workers’ injury rate, the wage gap between the CEO and median worker and the number of training programmes (Amman Stock Exchange, 2018^[23]).

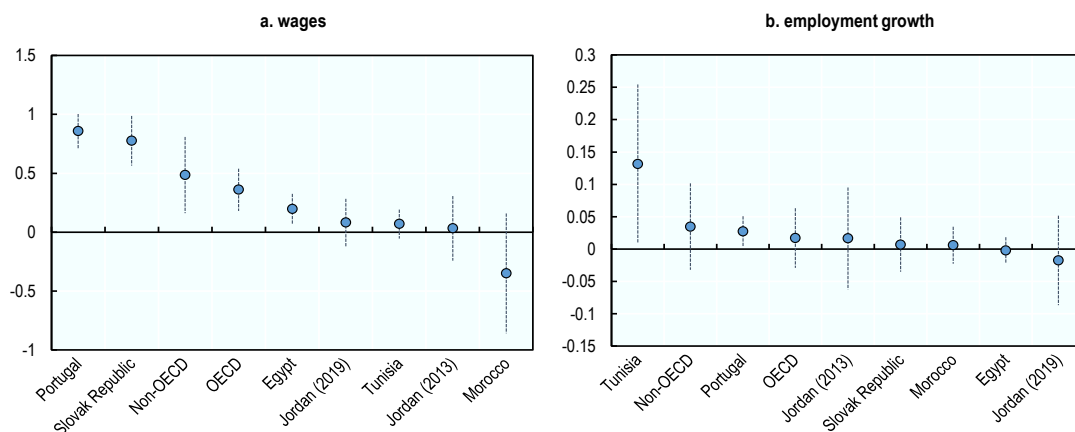
3.3.3. Foreign firms are more skill-intensive and provide more training

The previous section examined industry patterns, but firm-level features of investors also affect labour market outcomes. For instance, FDI concentration in less skill-intensive sectors is not an undesirable outcome if foreign firms operating in these sectors upgrade their workers’ skills and improve wage and non-wage working conditions. International evidence shows that foreign firms are larger, more productive and more skill-intensive than their domestic peers, and therefore pay higher wages (OECD, 2019^[13]). Furthermore, firms that are more dynamic have higher employment growth rates than less productive ones.

Foreign manufacturers in Jordan pay higher wages than domestic firms, but the premium is insignificant in comparison with other countries (Figure 3.11, Panel A). For instance, on average in non-OECD countries, foreign firms pay around 50% higher wages than domestic firms. The small wage premium in Jordan contradicts the fact that foreign firms are significantly more productive and larger (Chapter 2) – they employ 76 workers on average compared to 34 in domestic firms according to the 2019 World Bank Enterprise Survey of Jordan. This could be because the majority of foreign firms in the country operate in industries with low labour costs and high shares of foreign workers or are active in markets with little competition, which in turn can generate rents that do not entirely translate into wage gains for workers (OECD, 2019^[13]). For instance, a survey of the garment and leather industry in 2020 shows that 74% of firms with more than 250 employees are foreign (ILO, 2020^[24]). Furthermore, foreign firms in Jordan have not grown faster despite being more productive, an observation that is not unique to Jordan (Figure 3.11, Panel B).

Figure 3.11. Labour outcomes of foreign and domestic manufacturers in Jordan and comparators

The performance of foreign firms is higher if the value is above zero



Note: The figure shows the respective 95% confidence intervals. See OECD (2019^[13]) for the methodology.

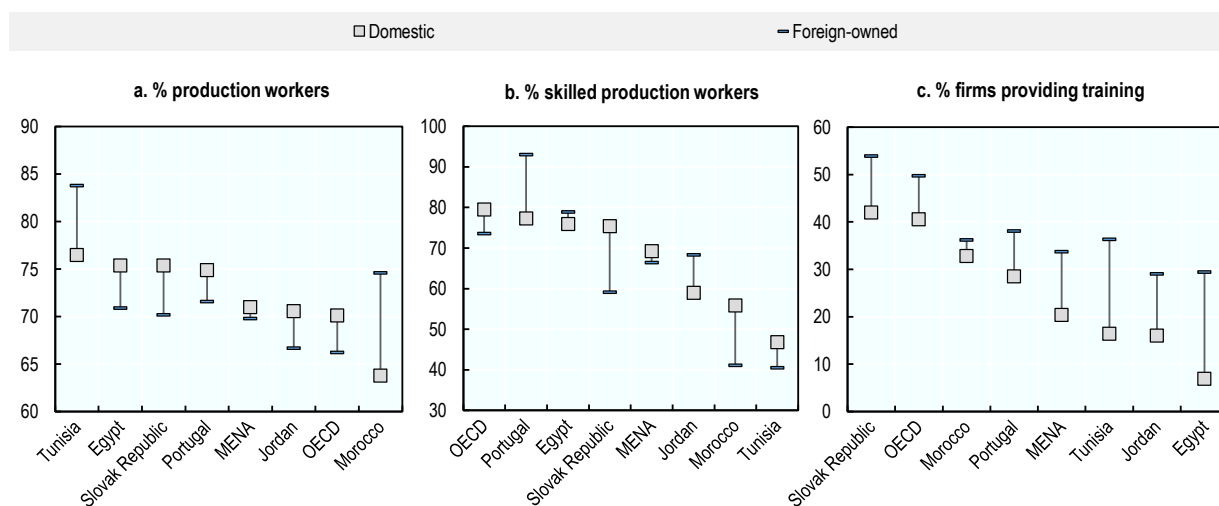
Source: OECD based on World Bank Enterprise Surveys.

Low foreign wage premiums can also imply that foreign and domestic firms have similar shares of skilled labour. But foreign manufacturers in Jordan have larger shares of non-production workers, occupations

that require higher skills than production jobs (Figure 3.12, Panel A). Even among the group of production workers, foreign firms employ higher shares of skilled workers relative to domestic firms (Figure 3.12, Panel B). The low wage premium in spite of higher skill-intensities reveals the structural dysfunctions of the labour market in Jordan, where the returns to skills in terms of higher wages are low in private sector jobs (Alshyab, Sandri and Abu-Lila, 2018^[25]). This may deter labour mobility to foreign firms, while it is typically via this channel that FDI raises wages in the host country (Hijzen et al., 2013^[26]). Low returns to skills could also be driven by the large presence of experienced migrant workers earning lower wages than Jordanians and working in FDI-intensive industries such as in garments and textiles (Azmeah, 2014^[18]).

Foreign firms in Jordan can influence the demand for skilled labour, but they can also increase the supply of adequate skills by training their workers or those of their domestic suppliers. Furthermore, they may induce other firms to invest in human capital in response to rising competition or to imitate their more profitable business practices, including by training workers. Figure 3.12, Panel C, shows that the share of firms providing on-the-job training in Jordan is higher among foreign-owned firms. While this implies that FDI contributes to skills upgrading in Jordan, it also confirms the earlier observation that foreign investors face stronger skills shortages than domestic firms, which may push them to provide more training to their workers in order to remain competitive. Overall, the share of firms providing training in Jordan is lower than in other countries, including within the MENA region. At the same time, this shows that there is ample room for progress, possibly through appropriate policy intervention.

Figure 3.12. Skill-related features of foreign and domestic firms in Jordan and comparators



Note: Percent of production workers out of total permanent workers; percent of skilled production workers (out of total production workers) in manufacturing.

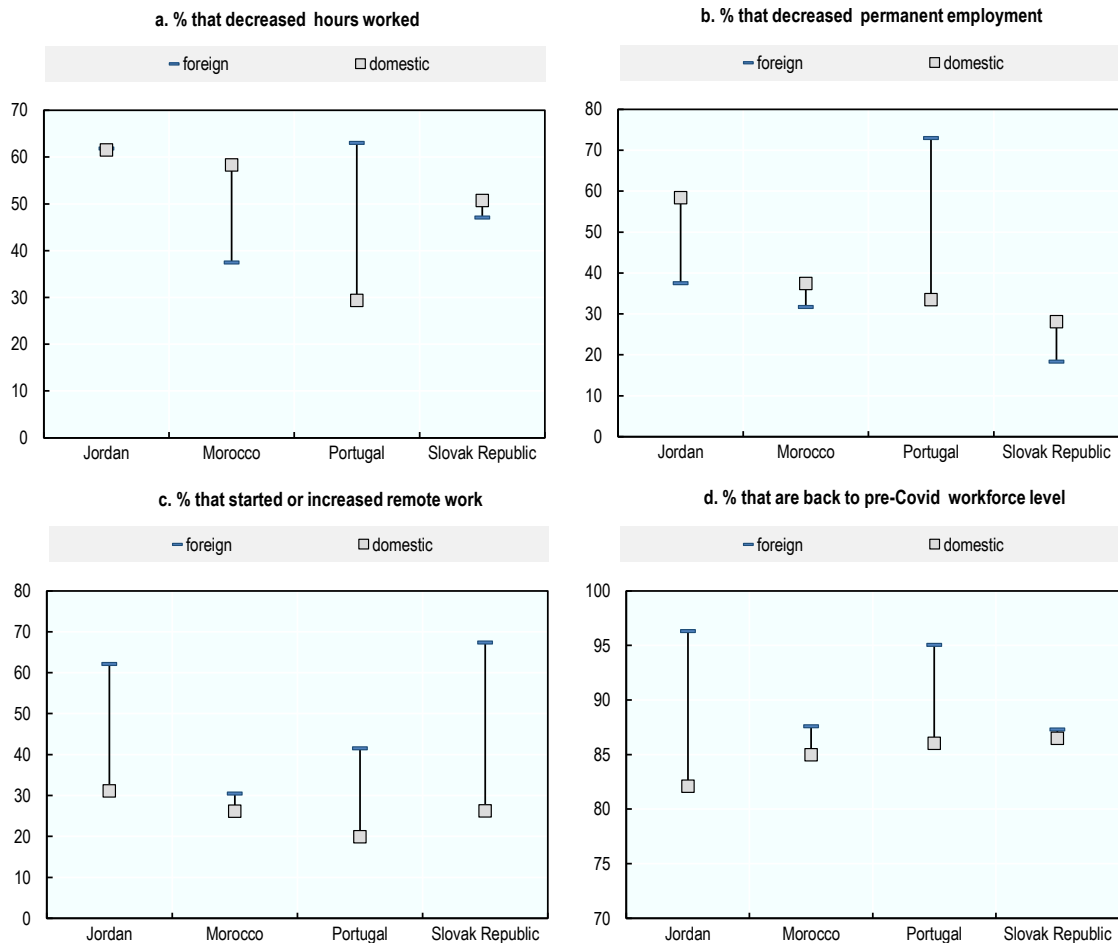
Source: World Bank Enterprise Surveys (latest available country survey).

3.3.4. Foreign firms adapted faster to new ways of working during the COVID-19 pandemic

The collapse of global FDI flows in 2020 has put a halt, at least temporarily, to the contribution of FDI to direct job creation in Jordan and in other host countries (OECD, 2020^[27]). In 2020, less than 250 direct jobs were expected to be created by greenfield FDI projects in Jordan against a yearly average of 1 667 jobs between 2010 and 2019 – among which nearly 200 in the tourism sector only – according to the Financial Times fDi Markets database. While this number appears low in comparison with the total number of job losses during the pandemic, it adds strain to the ambition of Jordan to create jobs through FDI.

The pandemic is also causing abrupt reductions in the activity of foreign firms. This in turn affects workers, whose jobs and income are at risk. While some foreign firms have been able to shield their workforce from such impacts and are choosing to keep and pay employees during the suspension of their activities, many businesses have had to lay off workers or reduce their working hours. In Jordan, foreign firms have not been more resilient compared to domestic firms to reduce the number of hours worked but they were relatively less to lay off staff (Figure 3.13, Panel A and B). It is possible that, when facing downward pressures, foreign firms find it costly to reduce their workforce because of their higher skill-intensity, and thus larger efforts will be needed to find suitable candidates during the recovery (OECD, 2020_[27]).

Figure 3.13. Foreign and domestic firms' labour market adjustments during COVID-19



Source: OECD based on World Bank Enterprise Survey “COVID-19: Impacts on Firms” conducted on November 2020-January 2021.

Foreign firms in Jordan and in other countries have managed relatively better than their domestic peers to adapt their modus operandi to the new work realities created by COVID-19 crisis. In Jordan, they were twice more to start or increase teleworking compared to domestic firms since the outbreak of the pandemic (Figure 3.13, Panel C). Foreign firms' greater adaptability to shocks can also support faster recovery in terms of workforce levels, thus potentially contributing to a job-led recovery (Figure 3.13, Panel D). Overall, differences in the ability to perform jobs remotely affects the impact of confinement on labour outcomes. Foreign firms may be well-placed to promote these new forms of work in Jordan through imitation effects and business relationships with suppliers. The intensity of remote work strongly differs across sectors, however, and the new jobs that foreign firms will create during the recovery will not be equal in terms of their teleworking feasibility. For instance, FDI in business or digital services have high propensities to

create many jobs with high teleworking feasibility, in contrast with manufacturing or health care sectors that also generate numerous jobs but with tasks that can hardly be executed from home (OECD, 2020^[27]).

3.3.5. Supply chain linkages and competition influence FDI spillovers on labour outcomes

Supply chain relationships between foreign firms and local suppliers are weaker in Jordan than in comparator countries (Chapter 2). Limited business linkages automatically reduce the scope for FDI-induced spillovers on labour market outcomes, which can be both positive and negative. Business linkages can generate employment and wage gains for local suppliers because of increased business activity. They can also have effects that are more permanent if foreign firms invest in the training of their suppliers' workers to raise the quality of the sourced inputs. Furthermore, when foreign firms operate with high labour standards, they could positively affect the working conditions of their suppliers. Nonetheless, supply chain linkages involving foreign and domestic firms can also have adverse effects if foreign firms have irresponsible business practices, for instance if they cancel or delay their payment of orders.

FDI can also affect labour market outcomes through spillovers to domestic competitors in the same sector. Evidence from the 2011 establishment census shows that the operation of foreign entrants in Jordan led to employment contractions among domestic competitors but they had positive spillovers on their suppliers or buyers in terms of job creation – gains that outweighed the job losses in competitors (Sahnoun et al., 2014^[28]). The magnitude of FDI spillovers on labour market outcomes hinged on specific characteristics of the Jordanian economy. Employment contractions due to competition effects affected small or old domestic firms that are often less productive, while the entry of foreign firms led to employment growth of suppliers that are young or operate in service sectors. FDI spillovers on labour market outcomes had a transitory nature, however, with employment growth falling after divestments for local suppliers while increasing for domestic competitors. This suggests that the impact of FDI on employment growth in domestic firms does not stem from permanent knowledge transfers that endure after a divestment (Davies, Lamla and Schiffbauer, 2016^[29]).

Manufacturing suppliers in Jordan did not benefit from FDI spillovers in terms of employment growth, in contrast with those in services, possibly reflecting weak competition in the sector and limited supply chain relationships (Sahnoun et al., 2014^[28]). For example, the pharmaceutical sector hosts several large foreign and domestic producers, but only 10% of inputs are sourced locally (*ibid*). Furthermore, additional evidence shows that local sourcing in Jordan is largely driven by foreign firms supplying inputs to other foreign firms in the country (OECD, 2021^[1]). This could be occurring in higher-skilled industries such as the pharmaceutical sector where domestic suppliers face challenges in producing goods that are up to the foreign firms' quality standards (see Chapter 2 for a discussion of SMEs' absorptive capacities).

3.4. The governance framework affecting the impact of FDI on job quality and skills

Jordan puts high policy priority on investment as a driver for job creation and skills development. Like many emerging economies in the MENA and other regions, the Government of Jordan supports this ambition with various multi-year strategies and plans, governed by dedicated councils and committees, ministries and implementing agencies. This section provides an overview of government strategies and the institutional setup at the intersection of investment, employment and skills development policy and evaluates to what extent they maximise the benefits of FDI on labour market outcomes.

3.4.1. Strategic priorities at the intersection of investment, employment and skills development

Several strategies and plans define Jordan's national priorities, goals and policies on investment, employment and skills development. Jordan Vision 2025, developed in 2014, and the ensuing Economic Growth Plan of 2018-22, are the country's national development strategies (Box 3.3). They include chapters on investment, education and human resource development and labour, thereby providing strategic direction across key policy areas where FDI can affect job quality and skills development. Objectives affecting FDI transmission channels (the ways in which FDI can have higher direct and indirect impact on labour market outcomes) include ensuring harmony between educational output and labour market needs, increasing labour market flexibility, improving the investment environment, and activating the role of the private sector as an engine of sustainable development and job creation. Both development strategies identify policy actions and investment opportunities to develop priority sectors with high value-added or those that employ a high percentage of Jordanians, which often are in services sectors.

The 2011-21 National Employment Strategy (NES) was devised as the most comprehensive response to rising unemployment and low participation rates, particularly among youth and women (see also Chapter 4). The strategy identifies FDI as a key driver of private sector growth in Jordan, yet indicates that most foreign investment created only short-term job opportunities (e.g. in construction) and few long-term effects on job quality and skills development. It also acknowledges that liberalisation reforms were not sufficient to reap the benefits of FDI in terms of creating more and better jobs, and must be combined with a range of policies aimed at encouraging exports, promoting innovation, and attracting FDI in particular sectors.

The NES includes broad objectives on investment policies that support more and better job creation. For instance, the strategy recommends aligning existing tax incentives and subsidies provided to private investors with the country's goal of becoming a knowledge-based economy. While including investment policy objectives in employment strategies should improve coherence across policy dimensions, it is not clear to what extent the recommendations of the NES were taken on board in ensuing investment plans and legislation such as the 2014 Investment Law. In Rwanda, for instance, the *2019 National Employment Strategy* included specific goals on investment and, importantly, indicates the responsibilities of each institution as well as provides an estimated budget for achieving each goal.

Overall, the implementation of the NES faced challenges, including limited resources and lack of continuity driven by reshuffles in the government. It also did not include newer challenges such as the influx of Syrian refugees and the COVID-19 pandemic. The government is currently preparing a new national employment strategy, which will be ready in 2022, but the Ministry of Labour has also been developing three-year plans over the last decade. For instance, the 2017-21 plan has the following strategic objectives:

1. Increase the number of Jordanian workers based on the principle of equal opportunities.
2. Reduce violations of the Law by strengthening the inspection, safety and occupational health apparatus.
3. Strengthen labour relations with social partners to reduce collective labour disputes.
4. Regulate the entry of foreign labour and substitute foreigner workers with Jordanian.
5. Strengthen partnerships with public, private and civil society agencies to improve the governance of the E-TVET and implement the NSHRD.
6. Raise the quality of services provided by the ministry (e.g. public employment services).

Box 3.3. National strategies covering economic development, employment and skills

Jordan 2025 aims to revitalise the economy by targeting poverty, unemployment and the fiscal deficit, and boosting GDP growth. To bolster economic development, Jordan 2025 adopted a cluster-focused approach that seeks to expand existing industries that are performing well, while developing related or supportive clusters complementary to those industries. The plan identifies eight clusters as having high potential for development: construction and engineering, transport and logistics, tourism and events, health care, life sciences, digital and business services, educational services and financial services.

Jordan Economic Growth Plan (JEPG) 2018-22 was issued in 2018 to supplement Jordan 2025. The plan lays out various economic, fiscal and sectoral policies that the government intends to implement in order to achieve sustainable social and economic growth. The plan was formulated with a sectoral focus, and it delineates specific interventions required by both the public and private sectors to achieve each industry's vision. Planned interventions primarily pertain to enhancing the country's competitiveness, improving the investment environment, easing bureaucratic red tape, digitalising government services, improving infrastructure and promoting sector-specific investments. Overall, the plan identifies 95 policy actions, including in the areas of investment, employment and skills development. Industries of focus are the same as the eight clusters of Jordan 2025.

The National Strategy for Human Resource Development (NSHRD) 2016-25 is the main reference for most education- and training related interventions and projects. The strategy sets out elaborated recommendations for reforming the different echelons of the education sector in order to achieve sustainable economic, social and environmental development in the country. The areas of focus include governance, quality assurance, the status of teachers and educators, private sector providers, engaging employers, innovation and culture change. The NSHRD pays particular attention to reforming the technical and vocational education and training (TVET) sector. This involves strengthening the relevance of TVET, enhancing the quality of training and education in the sector, introducing private sector centred governance structures (e.g. Sector Skills Councils) and, finally, breaking the negative stigma around TVET in the country.

The National Employment Strategy (NES) 2011-20 was devised as a response to rising unemployment rates and low economic participation rates, particularly among women and youths. The strategy presents the task of overcoming structural challenges in the Jordanian labour market as an endeavour that requires economic, education and social reform. The strategy is formulated on the basis of achieving progress over three time horizons, divided into the short, medium and long terms. The main goals to be achieved within these horizons include: (a) absorbing the unemployed, (b) bridging the skills mismatch and promoting the growth of micro, small and medium-sized enterprises, and (c) increasing productivity through human capital and economic restructuring. The third horizon includes the objective of developing industrial and investment policies towards growth with Job creation. Some labour market interventions highlighted in the strategy include adopting an effective foreign labour policy, scaling up active labour market programmes, scaling the transition from education to employment and reforming the TVET sector.

Source: OECD (2021^[30]), FDI Qualities Mapping of Policies and Institutions in Jordan; ILO (2019^[12]), State of Skills: Jordan https://www.ilo.org/wcmsp5/groups/public/--ed_emp/--ifp_skills/documents/genericdocument/wcms_754492.pdf

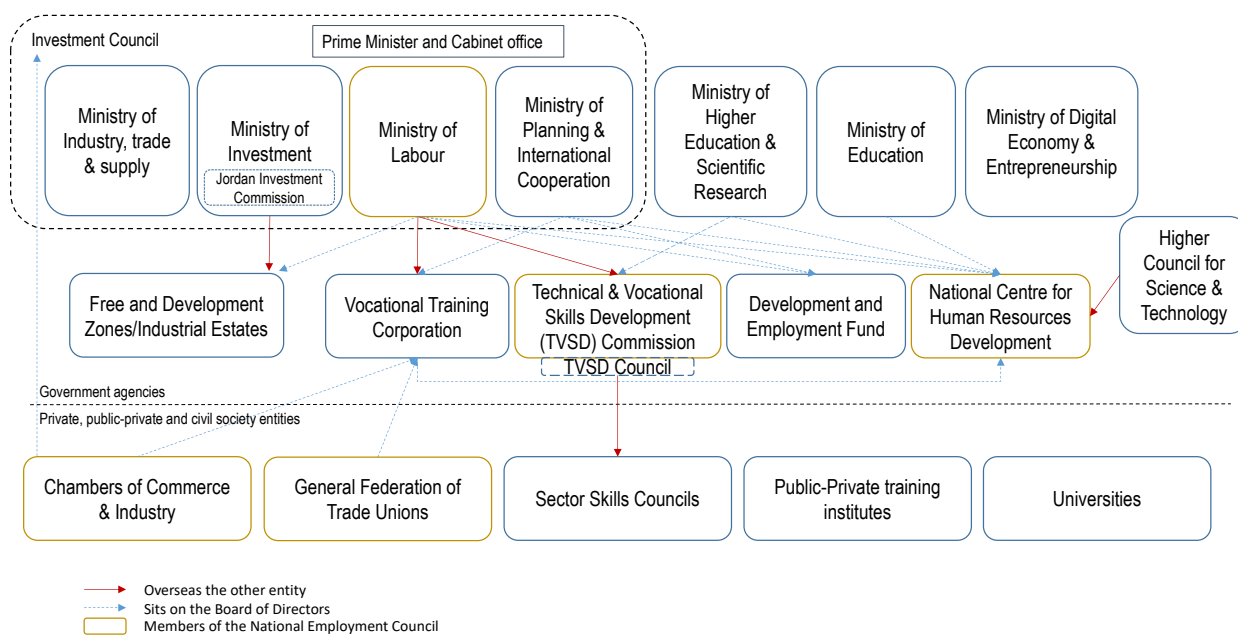
The government has also developed education and skills development strategies, at the forefront of which is the National Strategy for Human Resource Development (NSHRD) 2016-25. Drawing on previous national initiatives, including Jordan 2025, the NES and the National Employment-Technical and Vocational Education Training (E-TVET) Strategy 2014-20, the NSHRD has identified wide-ranging reform

programmes and action plans to establish a human resource development system for all education levels to enable the country to meet its sustainable development goals. The NSHRD led to important achievements, including the establishment of a Technical and Vocational Skills Development Commission, the endorsement of a National Qualifications Framework, and the establishment of sector skills councils run by the private sector (ILO, 2019^[12]). These actions aim at reducing skills mismatches and shortages, and thus should act positively on FDI transmission channels.

3.4.2. The institutional framework aims at addressing challenges that limit the benefits of FDI on jobs and skills but it could be more coherent and inclusive

Governments often design and implement their investment and labour market policies in institutional silos, but strong co-ordination is central for policy actions to achieve expected impacts. A large number of institutions in Jordan are involved in the design and delivery of policies and programmes enabling FDI to have a positive impact on job quality and skills development (Figure 3.14). The institutional framework includes ministries, public agencies, private sector representatives, trade unions, and training institutes, including universities. The mandate of public institutions is often enshrined in law, which also defines, albeit not always, governance relationships with other institutions. Given the multitude of actors with different interests, it is crucial that responsibilities are explicit, adequately funded and mutually understood by all.

Figure 3.14. The institutional framework for FDI impact on job quality and skills in Jordan



Note: The figure shows only the most relevant agencies for enabling FDI impacts on job quality and skills development. Source: OECD elaboration based on OECD (2021^[30]), FDI Qualities Mapping of Policies and Institutions in Jordan.

Mol – previously the Jordan Investment Commission (JIC) – is in charge of developing and implementing the government’s investment strategy with the aim of attracting and retaining investment and helping to realise its desired impact on economic growth and job creation. Mol also manages the 14 free and development zones of the country and has the mandate to promote exports. While Mol is not directly involved in employment and skills development policies, it still actively shapes potential impacts of FDI by promoting and facilitating investment in specific job-creating or skill-intensive sectors, granting tax incentives to investors as defined by the 2014 Investment Law and influencing the wider reform agenda through policy advocacy actions. Furthermore, Mol has the authority to sign memoranda of understanding

with other institutions and to co-operate on specific measures that can influence positively the contribution of FDI to labour market outcomes (e.g. training of workers).

Box 3.4. OECD Guidelines for Multinational Enterprises: Employment and Industrial Relations

MNEs should, within the framework of applicable law, regulations and prevailing labour relations and employment practices and applicable international labour standards:

- Respect the right of workers employed by the MNE to establish or join trade unions and representative organisations of their own choosing.
- Observe standards of employment and industrial relations not less favourable than those observed by comparable employers in the host country. Where comparable employers may not exist, provide the best possible wages and conditions of work, within the framework of government policies.
- To the greatest extent practicable, employ local workers and provide training, in co-operation with worker representatives and, where appropriate, relevant governmental authorities.
- Take adequate steps to ensure occupational health and safety in their operations.
- In considering changes in their operations which would have major employment effects, provide reasonable notice of such changes to representatives of the workers, and, where appropriate, to the relevant governmental authorities, and co-operate to mitigate practicable adverse effects.
- In the context of bona fide negotiations with workers' representatives on conditions of employment, or while workers are exercising a right to organise, not threaten to transfer activity in order to influence unfairly those negotiations or to hinder the exercise of a right to organise.

The Guidance sets out practical ways to help businesses avoid potential negative impacts of their activities and their supply chains. It aims to bolster policy efforts to strengthen confidence between enterprises and the societies in which they operate, and complements both the due diligence recommendations contained in the *UN Guiding Principles on Business and Human Rights* and the *ILO Declaration on Fundamental Principles and Rights at Work*.

The implementation of the *OECD Due Diligence Guidance for Responsible Supply Chains in the Garment and Footwear Sector* can help to address challenges in the sectors. The garment sector is an important driver of growth in Jordan and provides an example of how the government and industry players can organise themselves and collaborate to promote RBC. Garment and footwear global supply chains are characterised by stages of labour-intensive production process spread across diverse countries, short lead times and short-term buyer-supplier relationships. These factors reduce visibility and control over a company's supply chain and can create challenges for companies to meet their responsibilities in preventing and mitigating risks in their supply chains.

RBC challenges in Jordan are not limited to one sector and examples in the garment and footwear sector could be replicated and expanded to other industries, including those covered by other OECD sectoral due diligence instruments, including the *OECD-FAO Guidance on Responsible Agricultural Supply Chains* and the *Due Diligence Guidance for Meaningful Stakeholder Engagement in the Extractive Sector*.

Source: OECD (2011^[31]), OECD Guidelines for Multinational Enterprises, 2011 Edition, <https://dx.doi.org/10.1787/9789264115415-en>.

Mol also hosts Jordan's National Contact Point for Responsible Business Conduct (RBC), which is in charge of promoting the *OECD Guidelines for Multinational Enterprises*, and related due diligence guidance, and of handling cases tackled in the Guidelines as a non-judicial grievance mechanism. The

Guidelines include several clauses calling on MNEs to promote good industrial relations, quality jobs and a decent working environment (Box 3.4). The Jordanian NCP does not include third-parties in its structure, in contrast with other NCPs such as in Tunisia. It has also been largely inactive as regards RBC promotion, which may partly be due to the low level of allocated resources (OECD, 2021^[11]).

Together with MoI, the Ministry of Labour (MoL) is the other main institution that influences the impact of FDI on job quality and skills development in Jordan. The mandate of the ministry is to regulate the labour market, clarify industrial relations and develop active labour market policies, including skills development programmes, to tackle the main challenges of the labour market. The MoL performs its duties in accordance with the provisions of the 1996 Labour Law and its amendments. The mandates of the MoL are implemented in co-operation with several public, private and civil society partners. The government recently established a National Employment Council, with the Prime Minister as the chair, the Minister of Labour as his deputy and with the participation of the social partners (Figure 3.14).

The MoL oversees two public bodies that play important roles in the institutional framework that affects how FDI impacts job quality and skills, which are the Vocational Training Corporation (VTC) and the Technical and Vocational Skills Development (TVSD) Commission. The VTC offers vocational training and apprenticeship programmes, including on-the-job training programmes. It also offers ad-hoc programmes for upgrading the skills of current employees, based on the requests of employers. The negative stigma surrounding vocational training in Jordan, the outdated curricula used by the VTC and the poor infrastructure of training institutes make the VTC less attractive for young Jordanians (ILO, 2019^[12]).

The TVSD Commission was established in 2019 in line with the recommendations of the NSHRD on streamlining the governance of the TVET system – the Commission brings under one umbrella different bodies supervising the field of TVET – and addressing persistent skills imbalances. The Commission accredits and supervises TVET providers and their programmes, as well as evaluating and controlling their performance (the Centre of Accreditation and Quality Assurance operates under the supervision of the Commission). It also hosts the TVET Support Fund, which finances TVET programmes and activities targeting the most vulnerable groups. This support is useful for a small open economy like Jordan because trade and investment flows can adversely affect or displace workers in less productive jobs. The Minister of Labour chairs the council that oversees the work of the TVSD but members are in their majority from the private sector. The General Federation of Trade Unions is not represented in the TVSD council, although workers' voice is crucial to ensure that the TVET system remains human centred (ILO, 2019^[12]).

The TVSD Commission also oversees the Sector Skill Councils (SSCs), which are managed by the private sector and are considered a major step to improve public-private dialogue on the TVET system. They cover main economic sectors, including agriculture, energy, garments, chemicals, tourism, ICT, and logistics – sectors that are also prioritised by MoI. The SSCs are expected to: develop, manage and maintain an effective labour market intelligence system; improve the matching of supply and demand for skilled workers in the labour market; advocate for and contribute to improvements in the TVET sector; and monitor and evaluate the progress and results of training provision and productive employment of skilled workers. The SSCs have started to operate, but the law limits them to having an advisory role. Considering carefully the guidance provided by the SSCs will improve the market relevance of TVET programmes, but also help to keep the SSCs engaged in the dialogue with the government (ILO, 2019^[12]).

Other ministries involved in the institutional framework that influences FDI effects on job quality and skills include the Ministry of Planning and International Co-operation (MoPIC), the Ministry of Higher Education and Scientific Research, the Ministry of Industry, Trade and Supply, the Ministry of Education, and the Ministry of Digital Economy and Entrepreneurship. MoPIC, for instance, co-ordinates relationships with donors, among which several provide financial and technical support in the areas of employment and skills development, while the Ministry of Education defines the secondary level vocational education system – the Minister of Education established in 2021 a National Committee to conduct a comprehensive review of the vocational education system. The TVSD or the SSCs are not part of this newly created committee.

Other public agencies include the National Centre for Human Resource Development (NCHRD) and the Development and Employment Fund. The NCHRD reports to the Higher Council for Science and Technology (HCST) and benefits from a highly inclusive board membership. It provides policy advice, conducts studies, collects and publishes statistics on education and skills, and evaluates whether educational reform plans meet labour market needs. Together with the VTC, NCHRD is part of the National Committee reviewing the vocational educational system. Aside from the SCCs, private, public-private and civil society actors include the chambers of commerce and industry, the General Federation of Jordanian Trade Unions, training providers (universities, NGOs, private providers), and the donor community.

3.4.3. Co-ordination takes place at strategic levels but less across implementing agencies

There are no mechanisms in Jordan exclusively dedicated to horizontal policy co-ordination between ministries dealing with labour and skills development policies and those responsible for investment. Other existing mechanisms nevertheless could be adapted to ensure broader alignment across the policy areas. For instance, the Minister of Labour sits in the Investment Council (IC), which is the main co-ordinating body overseeing the management and development of Jordan's national investment policy (Figure 3.14). There are also several co-ordinating committees that aim at addressing labour market or skills imbalances challenges, including the newly established National Committee on Employment and National Committee on Vocational Education. Their mandates could be more coherent to ensure complementarity of objectives and their governance structure be more inclusive to support collaborative decision-making, particularly to promote a TVET system that adequately responds to private employers' needs.

The presence of the MoL in the IC signals the government commitment to policies that enhance the impact of FDI on labour outcomes. It is also particularly relevant as MoL oversees the Free and Development Zones where foreign labour is abundant. There is limited information on the extent to which the MoL and other members participate in the IC, however, and how they contribute to shaping the investment strategy. Nonetheless, it is reasonable to assume that the participation of the MoL in the IC helps in aligning strategic objectives and priorities that are at the intersection of investment, labour and skills development. The inclusion of the Ministry of Labour in IPAs' boards or similar high-level investment bodies is not common across countries, although there can be important differences in the status and functions of bodies overseeing IPA's work (OECD, 2019^[32]). For instance, Egypt's Supreme Investment Council, a high-level body that has similar functions to Jordan's IC, does not include the ministry of labour.

It is more challenging to identify concrete co-ordination mechanisms through which MoL can influence labour and skills development policies in Jordan. The MoL strategic plan for 2017-21 classified JIC as a supporting partner with which the ministry co-ordinates on technical issues to achieve reciprocal benefits (Table 3.2). The plan indicates that JIC contributes to achieving three out of the six strategic objectives of the MoL, including the objective of improving the governance of the TVET system and implementing the NSHRD. Co-ordination with JIC involved informal mechanisms such as meetings and correspondence, but it remains unclear how JIC – now MoL – concretely supports the MoL in achieving its strategic objectives. Co-ordination between the MoL and the Free and Development Zones, which MoL oversees, seems stronger than with the ministry itself. The organisational relationship between zones and the MoL is driven by the strategic objective of the ministry to regulate the entry of foreign labour and substitute foreigner workers with Jordanian citizens.

Co-ordination between MoL and implementing agencies involved in labour policy and skills development seems to be less developed. MoL does not sit on the boards of directors of the VTC or the NCRD and is not part of the TSDV council (Figure 3.14). Nonetheless, this absence is likely to be common across countries. Furthermore, the voice of the private sector is represented in these different agencies, which should help in identifying the needs of the labour market in terms of skills, and adapt training programmes to these needs. Involving MoL in the decision-making of the SSCs could be still a relevant avenue to

explore, however, as the ministry promotes and facilitates investment in the same industries and can bring forward its sectoral expertise and voice the concerns of the foreign investors in terms of skills shortages and training needs or provide feedback on labour market reforms under discussion. In Ireland, for example, the CEO of the Irish IPA is a member of the National Skills Council and is in charge of providing regular updates on sectoral investment opportunities and advice on skills availability (OECD, 2021^[15]).

Table 3.2. The relationship of the Ministry of Labour with JIC and other selected institutions

Institution	Type of relationship	Strength of relationship	Coordination mechanisms	Contribution to strategic objectives
Jordan Investment Commission	Technical	Supporting partner	meetings, correspondence	1,3 and 5
Free and Development Zones	Organisational, Technical	Supporting partner	meetings, correspondence	1, 3, 4 and 5
Ministry of Industry, Trade and Supply	Organisational, Technical	Key partner	meetings, correspondence, reports	1, 2, 3,4 and 5
Vocational Training Corporation	Organisational, Technical, legal	Key partner	meetings, correspondence, reports	1,5

Note: Organisational: it is not possible to complete the ministry's operations and achieve its goals with the partner organisation. Technical: partnership relations to achieve reciprocal benefits and aims to provide its services to customers, transfer knowledge and expertise in specialised fields and improve performance. Legal: existing laws and regulations specify the type of relationship with the partner.

Source: Ministry of Labour Strategic Plan of 2017-21, Government of Jordan.

3.5. The policy framework supporting the impact of FDI on job quality and skills

Improving the investment climate has long been a priority for the Government of Jordan, recognising the developmental benefits that FDI can bring. To this end, the government has advanced meaningful reforms in the past decade that are conducive to investment (OECD, 2013^[14]; 2021^[1]). These reforms should, however, be complemented with a wider set of policy interventions. This section reviews policies and programmes in Jordan that aim at improving the impact of FDI on job quality and skills development, including wider product and labour market regulations and more specific proactive policies and measures. The section also reviews Jordan's internationally agreed principles that can help ensure, *inter alia*, higher labour standards in the operations of foreign firms.

3.5.1. Pro-competition reforms would support FDI to create high-skill jobs in services sectors

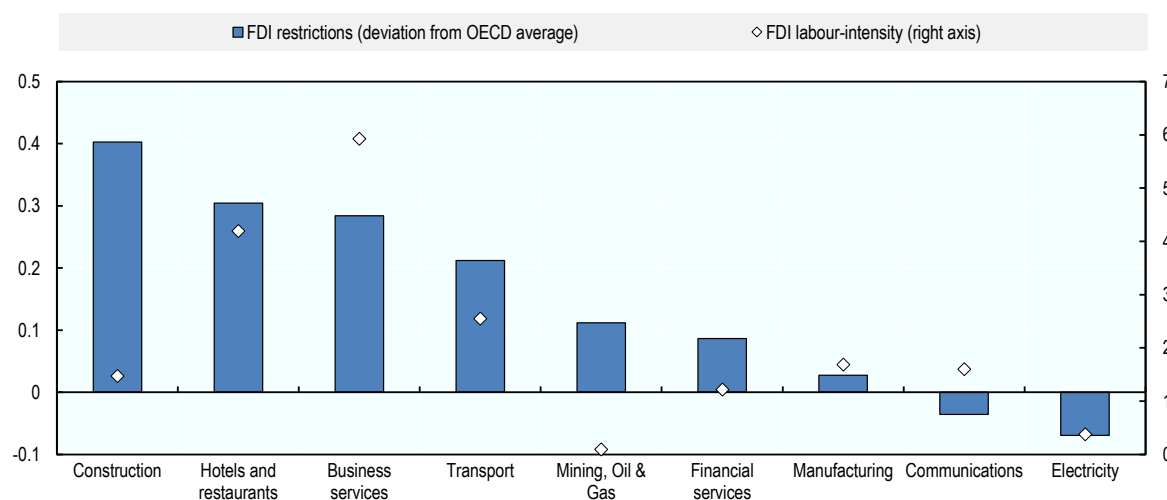
With the exception of restrictions on FDI, the wider regulatory environment in Jordan treats foreign and domestic investors alike. Nonetheless, the extent to which regulations affect the two groups of firms, and influence the respective ways they can impact labour market outcomes, can vary. Policymaking should take into consideration these differentiated effects on foreign and domestic business. For instance, product and labour market regulations directly affect foreign business location choice, characteristics and, in turn, labour market impacts. They also affect how labour markets adjust in response to FDI entry and spillovers on competitors and suppliers. FDI impacts on jobs, wages and skills are likely to be greater in settings where pro-competition policies allow for more efficient resource reallocation.

Discriminatory measures on investors' entry and operations deter FDI and, in turn, related direct and indirect labour market gains. Reforms in Jordan have largely liberalised the manufacturing sector but many service sectors remain partly off limits to foreign investors (OECD, 2018^[33]; 2021^[1]). Restrictions on full foreign ownership exist in business services, distribution, transport and tourism, sectors where FDI has a strong job creation potential (Figure 3.8). Joint venture requirements in such skill-intensive sectors may

also push foreign investors not to deploy their most advanced technologies and business practices, in turn limiting better-paid job creation and skills transfers to domestic owners (Moran, Graham and Blomström, 2005^[34]). High FDI restrictions in the construction sector contrast with the large amounts of FDI injected in the sector in the last two decades. This however suggests that liberalisation reforms could lead to even higher FDI inflows and more job opportunities for the lower-skilled workers, albeit temporarily.

Figure 3.15. FDI regulatory restrictions and job-creating potential of greenfield FDI in Jordan

FDI restrictions: A value higher than zero indicates that restrictions in Jordan are higher than the OECD average



Source: OECD FDI Regulatory Restrictiveness Index and Financial Times fDi Markets.

Services liberalisation can also generate labour market gains for domestic firms in other services sectors. Evidence for Jordan shows that domestic buyers and suppliers of foreign services firms experience significantly high employment growth (Sahnoun et al., 2014^[28]). Furthermore, by fostering competition, services liberalisation can push domestic competitors to learn from foreign peers, upgrade their activities and retain their workers in better-paid jobs – a desired outcome in light of the non-competitive wages in the private sector.

Governments often introduce FDI restrictions with the stated objective of protecting domestic firms (and their workers) from foreign competition. Indeed, FDI Liberalisation can crowd out domestic competitors and increase wage inequality in the short term, particularly in non-tradable services where large MNEs can capture market shares such as in construction. FDI restrictions are not optimal policy interventions, however, as they create uncertainty and negatively influence foreign investors' decisions (Mistura and Roulet, 2019^[35]). Jordan could prioritise the tradable services sectors with solid comparative advantages to limit the transitory labour market losses from liberalising other services FDI (Hausmann et al., 2020^[21]) (Steenbergen and Tran, 2020^[36]). The following sections reviews Jordan's policies and measures that can proactive help all workers benefit from increased FDI in services sectors.

Together with FDI restrictions, other product market regulations influence the impact of FDI on job quality and skills development in Jordan, including barriers to business creation and innovation (see also Chapter 2). Small and old firms in Jordan – firms that foreign entrants tend to crowd out – have weak employment and wage growth prospects but they dominate the private sector landscape. Pro-competition reforms could reduce firm's entry costs and operations, and hence allow for a more dynamic private sector that creates high-skill jobs. Jordan Vision 2025 aims at enhancing the ability of firms to grow and compete on a level playing field and the government recently reviewed its competition policy to design and

implement rules that minimise market distortions (Ministry of Planning and International Co-operation, 2019^[37]). Discretionary enforcement of existing competition policies is a key challenge.

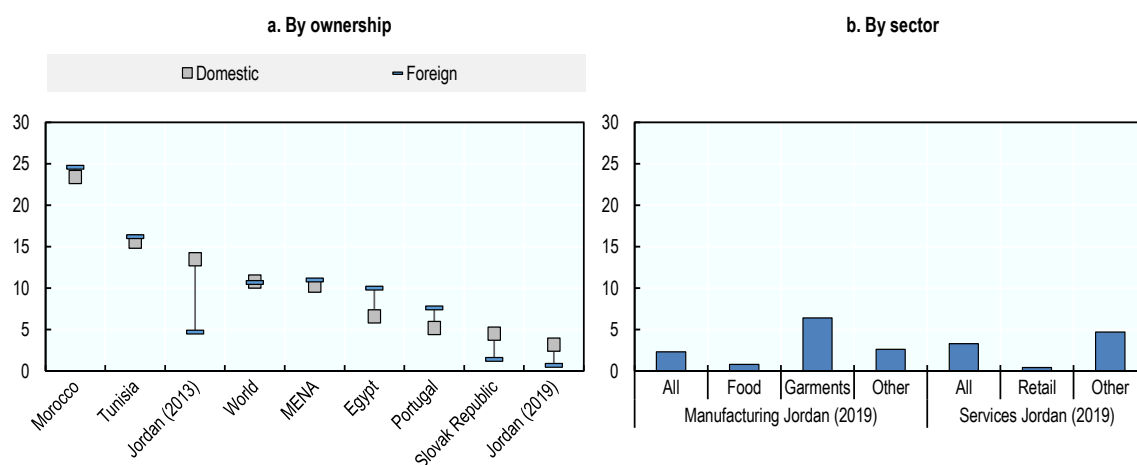
Non-competitive wages and less attractive working conditions in the private sector have also been a disincentive for public sector workers, which are often highly educated, to leave their jobs. The resulting lower labour mobility from public to private sector employment has limited a more efficient resource reallocation of workers (World Bank, 2016^[7]). Distorted wage setting and the continuous, albeit slowing, net job creation by the public sector has been key to the socio-political stability of the country, which reduces the scope for structural reforms. Improving the efficiency of the public sector is, however, on the government's reform agenda and includes rationalising public sector hiring practices (Ministry of Planning and International Co-operation, 2019^[37]).

3.5.2. Recent labour market reforms improve FDI impacts but further efforts are still needed

Balanced labour market regulations can support foreign firms' adjustments while providing a level of employment stability that encourages learning in the workplace. In Jordan, labour market regulations do not appear to be a major constraint for the private sector (Figure 3.16, Panel A). This implies that firms' adjustment costs when hiring or firing workers in response to FDI entry and spillovers are not likely to restrain labour mobility and wider resource reallocation. For foreign investors, flexibility of the host country's labour market matters for their location choice and investment volumes – and thus job creation potential (OECD, 2021^[15]). Labour regulations can also affect the sectoral composition of FDI. For instance, stringent legislation deters FDI more in the services sector than in manufacturing (Javorcik and Spatareanu, 2005^[38]). This does not seem to be the case in Jordan, as the share of firms identifying labour regulations as a major constraint is highest in the garment sector (Figure 3.16, Panel B).

Jordan undertook several labour market reforms in 2015 and 2019. The most important reform amended the Labour Code in 2019 and included improvements related to wages, over-time, paternity leave, annual leave, child-care, retirement, labour disputes, and female participation in the labour market (see also Chapter 4). Evidence suggests that these changes were welcomed by the private sector, particularly domestic firms, which reported to be significantly less constrained by labour market regulations after the reforms (2019) than before (2013). Earlier evidence confirms that labour market regulations in Jordan were not more cumbersome than in other MENA or developing countries (Angel-Urdinola and Kuddo, 2010^[39]).

Figure 3.16. Percent of firms identifying labour market regulations as a major constraint



Source: OECD based on World Bank Enterprise Surveys.

The fact that labour regulations are even less burdensome for foreign firms is likely to be driven by their large presence in Free and Development Zones, where rules on foreign work are different from the rest of the country. Residence and labour regulations in Development and Free Zones No. 80 of 2016 stipulates that there is no quota on the share of foreign workers and no social security contributions and payroll tax on foreign worker's salaries. Aligning regulations between zones and the wider legal regime is crucial as FDI concentration in zones with less stringent labour legislation can encourage precarious job contracts and adversely affect decent working conditions (Box 3.2). Furthermore, levelling the playing field through the unification of the minimum wage of Jordanian and non-Jordanians and of workers in the garment sector and those in other activities are other avenues to avoid distortions between different groups of workers.

Other labour market regulations in Jordan continue to adversely affect FDI capacity to create more and better jobs. These include regulatory barriers to female labour participation (Chapter 4), employment formalisation and hiring of highly skilled foreign workers (IMF, 2020). The latter affects MNEs ability to effectively deploy their operations and, until recently, to employ foreign personnel in key management positions in services sectors such as professional services (auditing, architecture, engineering, and construction), banking and medical services (OECD, 2018^[33]). A 2016 survey of the investment climate in Jordan confirms that most obstacles for hiring foreign skilled workers are of regulatory nature – skills shortages were the main obstacle for hiring Jordanian skilled workers (World Bank, 2016^[40]).

The government realises the benefits of opening the labour market to highly skilled non-Jordanians (Ministry of Planning and International Co-operation, 2019^[37]). It therefore amended in 2019 its regulations to allow hiring non-Jordanians in a number of high-skill occupations, particularly in ICT, energy, engineering, professional services and banking. But the reform also states that employers can hire foreign skilled workers only when there are no qualified Jordanian job seekers or if their employment will contribute to the economy by generating job opportunities for Jordanians. The reform introduces a mandatory work permit for highly skilled foreign workers that has higher fees than regular work permits. Foreign applicants must obtain the skilled work permit from the applicable government body, which varies according to the occupation. Furthermore, foreign skilled workers are not allowed to renew their work permits and have to reapply for a new permit each year to confirm that they fulfil the required conditions.

Notwithstanding the relevance or not of regulating the entry of skilled foreign workers, it is crucial to simplify their entry procedures. Other countries like Thailand also impose restrictions on the entry of foreign workers. To remain attractive to investors, Thailand established a Strategic Talent Centre to facilitate the admission of skilled foreign workers. The Centre provides a mechanism that recognises the qualifications of foreign experts that want to work in Thailand. Once their qualifications are recognised, the Centre, together with the IPA, assist foreign job seekers with their visas and work permits (OECD, 2021^[41]).

Labour market institutions are also crucial to ensure that FDI does not contribute to deteriorating working conditions. Collective bargaining and workers' voice arrangements can particularly help ensure that workers benefit from FDI by supporting collective solutions to emerging issues and conflicts (Box 3.5). In Jordan, 7% of employees were unionised in 2019 while collective bargaining agreements covered 12% of employees – respectively 16% and 32% in the OECD area (Danish Trade Union Development Agency and Confederation of Danish Industry, 2020^[42]). Most agreements are concluded at the firm level – mostly large firms – and are used as tools for ad-hoc dispute resolution, rather than to establish minimum labour standards. The only industry-wide agreement covers the garment sector and set standards on working hours, occupational safety and health and trade union representation.

The 2019 amendments to Jordan's Labour law did not include major improvements in the area of collective bargaining rights. The Code limits the right to organise and bargain collectively to 17 sectors and prohibits union pluralism. It also prevents foreign workers, which are a significant part of the workforce, from forming unions. Already before 2019, Jordan's compliance with freedom of association and collective bargaining rights was worse than in several comparator countries, including Tunisia (Center for Global Workers' Rights, 2021^[43]). Jordan has not ratified the ILO Convention on the Freedom of Association and Protection

of the Right to Organise, which is the only Convention that the country did not ratify among the eight fundamental ILO Conventions.

Box 3.5. Collective bargaining and workers' voice improve FDI impacts on working conditions

FDI, together with innovation, trade and migration transform the world of work. Collective bargaining and workers' voice can ensure that all workers and companies benefit from current transformations by helping formulate solutions to emerging issues, and complement policies to anticipate skills needs, or support displaced workers in new forms of work. Sector-level collective bargaining is associated with lower wage inequality between workers while wages and other working conditions tend to be better in firms with employee representation (OECD, 2019^[44]).

Effective systems of collective bargaining are important in the context of large and profitable foreign firms: the FDI Qualities Indicators suggest that foreign firms' productivity-related rents translate poorly into wage benefits, particularly in less skill-intensive firms. Sharing rents is observed less among firms with lower-skilled workers because of workers' lower bargaining power. Collective bargaining could help achieve fairer sharing of benefits between firms and workers (Crisciolo et al., 2020^[45]).

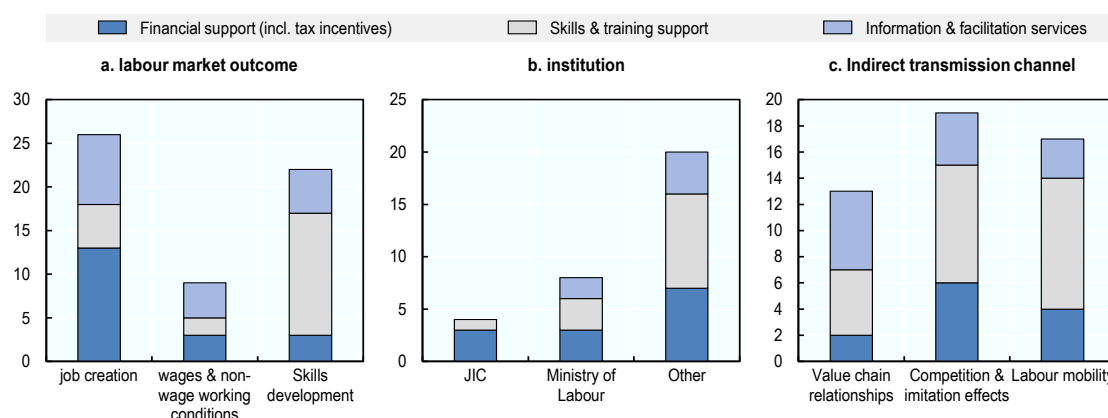
In practice, even when there is a right to collectively bargain, foreign firms' negotiation power may still be stronger than that of domestic firms, possibly reflecting union fears that wage demands (or negative shocks) may lead to the relocation of production (OECD, 2008^[46]). One consequence of this bargaining imbalance has been the development of transnational workers' representations to better co-ordinate workers' bargaining policies. For instance, in the EU, European Works Councils are consulted by MNE management on decisions at European level that affect workers' employment or working conditions.

3.5.3. Financial, technical and information services target job creation and vocational training

Active policies and programmes can help governments act on desired labour market outcomes of FDI, including by influencing specific transmission channels of FDI spillovers. The policy mix in Jordan aims at stimulating labour demand by attracting investment in specific sectors, locations and occupations and at increasing the supply of adequate skills, although most often for low-skill workers (Figure 3.17, Panel A). Fewer policies pursue the objective of improving working conditions. The choice of the policy instruments differ across targeted labour market outcomes. Tax and financial incentives are typically designed to promote job creation while TVET programmes are widely used by the government to support skills development. Information and facilitation services are less frequently used, particularly in comparison with other countries. Table 3.3 provides a description of some of the existing policy initiatives.

Initiatives are scattered across several government entities and policy domains (Figure 3.17, Panel B). For instance, *Regulation No.18 of 2020* on corporate income tax incentives (CIT) in the industrial sector provides CIT reductions to manufacturers that hire Jordanian workers, a policy that could be equally viewed as a pro-employment investment policy, active labour market policy (ALPM) or an industrial policy. The porosity across different policy domains suggests that developing joint policy initiatives could ensure alignment in objectives, reduce overlaps and rationalise budget use. MoI, for instance, has only few joint initiatives or programmes with the MoL or other bodies reporting to the MoL, however. Initiatives bringing together development or free zones with the MoL are limited to labour inspection. Further information is needed to assess what is the budget allocated to these different initiatives but, focussing on ALMPs only, the Jordanian Government spent less than 0.1% of total government spending on them in 2021, compared with 0.3% in the Czech republic, Costa Rica or Portugal and 1% in Sweden in 2019 (Al-Ajlouni, 2021^[47]).

Figure 3.17. Policies influencing FDI impacts on job quality and skills in Jordan



Note: Every policy can influence several, be executed by several institutions and act on multiple transmission channels of FDI impacts.
Source: OECD (2021^[30]), FDI Qualities mapping of institutions and policies in Jordan.

Table 3.3. Selected policies in Jordan that can help improve FDI impact on labour market outcomes

Name of initiative	Implementing institution(s)	Duration	Description
Al-Manar project	National Centre for Human Resource Development	2003-ongoing	Collect, analyse and disseminate data on human resources and conducts skills gaps assessments by industry
Defence Order N.6 during COVID-19	Prime Minister Office; various ministries	April 2020 (lockdown)	Ease the impact of the COVID-19 pandemic on employers and employees by providing, inter alia, wage subsidies.
Gold Professions Initiative	Jordan Investment Commission; Industrial Estate Company	2021-ongoing	Provide training to local communities close to industrial estates in line with the needs of the factories; Connect service providers with specialised skills with factories.
GrowJo Talent (Youth, Technology & Jobs Project)	Ministry of Digital Economy and Entrepreneurship	2020-ongoing	Provide wage subsidy in order to create new jobs in the digital economy. The subsidy covers up to 50% of the new employee monthly salary for up to six months.
National ICT Upskilling Programme	Al Hussein Technical University	2019-ongoing	Train 1 000 job-seeking university graduates in engineering and ICT.
Satellite Unit Project	Ministry of Labour; Jordan Investment Commission	2009-ongoing	Provides wage and transport subsidies and infrastructure services to garment manufacturers in a QIZ or Free Zone that set up a factory outside of zones (a satellite unit).
Tax incentives in the industrial sector	Ministry of Industry, Trade and Supply	2020-ongoing	Reduce corporate income tax for manufacturers that increase the share of Jordanian workers in their workforce.
TVET Fund	Technical & Vocational Skills Development Commission	2019-ongoing	Fund training programmes targeting unemployed people and the most vulnerable individuals or population groups.

Source: OECD (2021^[30]), FDI Qualities mapping of institutions and policies in Jordan.

Some tax incentives are more adapted to local labour market challenges than others

Jordan, as many other governments, use a wide range of incentives that may induce firms to invest, create jobs, raise wages, and train their workers. CIT holidays or reductions and employment subsidies are the most typical tools used; they do not differentiate between foreign and domestic investors but some implicitly target FDI in job-creating sectors – for instance CIT incentives given by MoI in Development or Free Zones. Existing incentives tend to support direct or indirect job creation of low-skilled workers and substituting foreigners with Jordanians (e.g. *Regulation No.18 of 2020*). These incentives may not be attractive – particularly among foreign firms that rely more heavily on foreign work – if Jordanian job seekers are not getting the right skills and minimum wages of Jordanians and foreigners continue to differ. They are also not time-bounded and their relevance must be regularly evaluated to examine if the benefits materialise.

The government also introduced temporary and targeted measures to address specific challenges that hinder FDI benefits or amplify its adverse impacts. *GrowJo Talent*, launched in 2020, is the only incentive that targets high-skilled workers by subsidising wages in digital firms. The subsidy covers 50% of new employees' wages for up to six months. The measure could help attract investments that increase the demand for ICT skills and absorb a much higher supply (Al-Manar Project, 2018^[48]). It also supports efforts to nurture the digital skills of youth – including by providing practical hands-on experience – and match them with the actual needs of the ICT sector. Another wage subsidy, *Defence Order N.6*, was introduced as a countercyclical measure to mitigate the adverse effects of the COVID-19 crisis. Many governments provided wage subsidies to employers during the pandemic, and foreign firms, including in Jordan, strongly expect to receive such support, possibly because they tend to adjust labour by decreasing temporarily the number of hours worked, and thus lowering wages, more than through layoffs (OECD, 2021^[15]).

Other initiatives promote value chain relationships between foreign and domestic firms (Figure 3.17, Panel C). The *Satellite Unit* project provides wage subsidies and other financial incentives and support services to garment manufacturers operating in QIZs or SEZs that set up “satellite” factories outside of zones. The initiative is implemented by the MoL, in co-operation with Mol that provides assistance to investors on the incentives provided, and has helped create 16 satellite units employing 5 500 Jordanians in formal jobs – predominantly women discouraged from working in zones (see Chapter 4). While the number of satellite factories has increased since the start of the project in 2009, their financial sustainability remains a concern, potentially because of limited investments from zone-based headquarters (ILO/IFC, 2019^[49]).

Training programmes should strengthen the skills of the better-educated Jordanians while retraining those potentially adversely affected by MNE's changing needs

While financial support aim at prioritising FDI in job-creating or skill-intensive activities, it is as relevant for the Government of Jordan to align the existing skills base with the needs of global investors. In general, skills development programmes, though costly, have shown some success when well-designed and targeting the right beneficiaries (Bown and Freund, 2019^[50]). In Jordan, government support focus on vocational training provided to a large extent by the VTC, but TVET suffers from a lack of attractiveness by young job seekers. Furthermore, skills development programmes aim less at upskilling the highly educated Jordanians that suffer from shortages in soft skills (communication, language, professional writing, etc.), although this group could benefit from increasing FDI trends in services (Al-Ajlouni, 2021^[47]).

The investment community can play an important role by participating in skills development initiatives. For instance, Mol and the Jordan Industrial Estate Company launched in 2021 the *Gold Professions Initiative* to rehabilitate the skills of the local communities surrounding the industrial estates and match them with the needs of employers. It is not clear, however, whether Mol will seek support from the TVET Fund or rely on private sector contributions and if the agency will seek accreditation of the programmes by the TVSD commission. The Costa Rican IPA, for instance, established the *Skills4Life Programme*, in partnership with the Ministry of Labour and the Ministry of Education, and as part of the National Employment Programme, to retrain students and help them find work afterwards (Box 3.6). Mol, in co-operation with other relevant agencies, could also support existing or potential suppliers of foreign firms with relevant training options or support foreign firms that want to establish their own training centres. One example is Orange and its *Coding Academy* that offers a training accredited by the Ministry of Higher Education and Scientific Research. Around 70% of participants find a job after this training (OECD, forthcoming^[22]).

Training programmes in Jordan should mutually strengthen the skills of the highly and less-educated in order to meet the challenges that robotisation, digitalisation and low-carbon transition – all accelerated by FDI – impose on the labour market. Sectoral training programmes, for instance, such as Jordan's *National ICT Upskilling Programme*, can help reduce skills shortages in high-growth sectors where FDI may crowd out competitors unable to retain their talented staff. Such programmes have proved to be impactful and

differ from general training courses in that they address the need of particular employers and require close co-operation with them (Rodrik and Stantcheva, 2021^[51]). Involving the SSCs in the design of sectoral programmes is crucial to ensure that they respond to employers' needs and complement each other.

Box 3.6. CINDE Costa Rica supports skills development through joint policy programming

The Costa Rican IPA, CINDE, plays a particularly significant role in skills development. According to the IPA's 2019-22 strategy, the organisation identifies itself as a key player in supporting skills development for jobs of the future, and in the transitioning towards a knowledge economy. CINDE has established several joint programmes with ministries, universities, technical institutions and the MNEs themselves, allowing the IPA to also closely track patterns in emerging human talent.

In 2018, CINDE launched a partnership with the Ministry of Labour and the Ministry of Education, to create the Skills4Life Program, as part of the National Employment Program. Skills4Life retrains over 2 000 students per year in the English language, social skills in the workplace and also provides an accompaniment plan to help recipients find work afterwards. A 2020 initiative saw CINDE, in collaboration with Coursera, an online education platform, along with the Ministry of Labour, come together to launch an industry 4.0 train programme designed to benefit 50 000 recipients.

CINDE also contributes to an overall understanding of the labour market and education outlook of Costa Rica, including skills needs, which encourages programmes that further boost the country's attractiveness as an FDI destination. In one of these programs, Technological Seedlings, CINDE has partnered with Microsoft to boost the talent pool in high-tech sectors identified in CINDE's studies as needing the most new entrants. The training of these students has been relegated to the INA, Costa Rica's agency for learning and skills development.

CINDE also incorporates digital tools and artificial intelligence (AI) in their talent development initiatives, such as the *Crystal Ball* programme that is directed at matching the supply of knowledge economy jobs with the demand. The programme uses an AI-based digital employment orientation platform that predicts and recommends learning paths to ensure users' employability opportunities, personalised based on experience, capabilities and interests, with the aim of impacting over 30 000 people.

Source: OECD (2021^[15]), FDI Qualities Policy Toolkit: Polices for improving the sustainable development, <https://www.oecd.org/investment/investment-policy/FDI-Qualities-Policy-Toolkit-Consultation-Paper-2021.pdf>.

Other instruments such as the *TVET Support Fund* provide targeted training to job seekers and vulnerable groups of workers. If well implemented, programmes by the fund could help mitigate the adverse impacts of FDI on low-productivity competitors by retraining, among others, displaced workers. A recent impact evaluation of one programme supported by the fund recommended to clarify *ex-ante* the objectives of the trainings and to develop and apply result-oriented M&E systems (Ministry of Labour, 2019^[52]). Evidence from other countries shows that retraining programmes in transferable and certifiable skills can facilitate labour mobility – which tends to be low in Jordan – and help workers move to better jobs (OECD, 2021^[15]).

Overall, the design of training programmes in Jordan could benefit from a more evidence-based, demand-driven approach and greater private sector involvement (ILO, 2017^[53]). To support this objective, the government should establish comprehensive labour market information systems and reinforce its capacity to run skills needs assessments. Some initiatives exist or are in development but they are scattered across several institutions, including the NCHRD (AI-Manar project), the SSCs or the newly established MoL's labour market information observatory. This has reduced the ability of decision-makers – but also donors and the private sector – to develop evidence-based skills training programmes. Collecting information on foreign firms' operations and skills needs will also help the government developing adequate training

programmes as FDI is a forward-looking indicator of what jobs and skills will be in demand in the future. Involving the investment community, including MoI and the foreign firms, in such foresight exercises could help reduce the gap between the information produced and the skills needs driven by FDI.

Information and facilitations services provided respectively to investors and job seekers should be strengthened and complement each others

Information and facilitation services provided by MoI and public employment offices (PEOs) of the MoL can help address information failures that prevent FDI from realising its labour market potential. On the investment promotion and facilitation side, and in coherence with existing strategies, MoI could further promote sectors or activities in alignment with the existing skills base and provide appropriate information to investors on labour market characteristics, including in different regions of Jordan. Through its *Investment Window*, MoI accompanies investors in getting relevant work permits and authorisations such as foreign workers' permits. The ministry could further ensure that up to date material on labour regulations, skills support programmes and different employment incentives are visible and easily accessible online.

MoI could provide more targeted facilitation and aftercare services, such as connecting existing investors with local suppliers with high labour standards. The Jordanian NCP – hosted by MoI – should play a leading role in disseminating guidance on RBC and due diligence to investors but it has been largely inactive (Box 3.4). Compliance with labour standards increases suppliers' prospects to engage with foreign buyers that run due diligence checks to assess RBC risks in their supply chain. Only few initiatives in Jordan aim at raising awareness about labour standards and helping companies disclose their compliance with them. *Better Work Jordan*, an initiative implemented by the ILO and IFC in co-operation with the MoL, established a transparency portal disclosing the compliance of apparel factories with key labour standards. Another relevant initiative is ASE's 2018 "Guidance on Sustainability Reporting" that encourages listed companies to disclose their ESG performance, but information available online is still limited.

PEOs aim at reducing search costs for job seekers and employers and, thus, improve labour mobility. They are located in the different governorates of Jordan and provide career guidance and counselling, support the professional growth of job seekers and facilitate employers' access to the right candidates. They do not provide skills certifications to job seekers. As FDI often creates more jobs in urban areas, POEs could further help nearby communities – programmes providing information about job opportunities in a different location or subsidising job search by covering transportation costs has been found to be effective (OECD, 2021^[15]). In practice, only a small number of job seekers and employers in Jordan use POE services. The MoL is currently working on increasing the outreach of PEO and improving their capacity to enhance the relevance of services provided to employers (Ministry of Labour, 2021^[54]). It is also essential to better connect job search services to other employment services such as training programmes, as ALPMs have a stronger impact when services are offered to job seekers in an integrated manner.

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4 Improving FDI impacts on gender equality

This chapter discusses the recent challenges faced by Jordan in terms of women's economic inclusion and assesses the potential of FDI to close gender gaps in the labour market. It provides an analysis of the institutional and policy frameworks that support the positive impacts of FDI on gender equality and women's empowerment, focusing on institutional arrangements and policies at the intersection of gender mainstreaming, labour market, entrepreneurship and investment policies. The chapter is based on the forthcoming OECD FDI Qualities Policy Toolkit (gender equality cluster).

4.1. Summary

Jordan has made considerable progress in terms of women's economic inclusion, but the country still faces significant challenges that have been exacerbated by the COVID-19 pandemic. Progress in education has not been followed by increased participation of women in the labour market. The female participation rate is among the lowest in the world, at only 14%, and the gender pay gap remains significant. Women are concentrated in service sectors, particularly education, health and social care, and in low value-added manufacturing industries. A large proportion of women, about 37%, work for the public sector. Few women become entrepreneurs, partly because of discriminatory social and cultural norms. The working conditions of immigrant women, most often in informal employment, are even more difficult.

Foreign direct investment (FDI) can help host countries reduce gender gaps in the labour market. In the last two decades, however, most FDI in Jordan has been directed to energy (oil and gas) and real estate services, two sectors dominated by men. The manufacturing sector, which employs a significant share of women particularly in garments and textiles, has received a much lower and, since 2008, declining amount. Foreign companies do not appear to be more gender-inclusive than domestic companies. They employ higher percentages of women on average, but are less likely to have female top managers or owners. Evidence also shows that working conditions for women in Qualifying Industrial Zones (QIZs), where many foreign textile and garment companies are located, are often difficult. Women in the zones, most of whom are foreign nationals, have labour-intensive, low-paid jobs with limited prospects for career advancement. Supply-chain linkages between foreign and domestic firms are high in some female-dominated industries, like garments, but FDI spillovers on domestic firms in terms of job creation have been limited.

Improving the inclusion of women in the economic life of the country is a political priority for Jordanian policy makers, as highlighted in the National Strategy for Women 2020-25. The policy objectives in terms of gender equality are in line with Jordan's ambition to become a prosperous, sustainable and inclusive economy where all citizens, including women, can benefit from economic growth, as described in its national development plan, Vision 2025. This chapter provides an assessment of the institutional and policy framework that supports the positive contribution of FDI to gender equality. It examines the role and co-ordination of relevant government actors responsible for policies in areas such as gender mainstreaming, investment, labour market and entrepreneurship. It also assesses the policy mix at the intersection of these policy areas, which can be used to influence the impact of FDI on gender equality. The key policy considerations are summarised below.

Key policy considerations

- **Jordan's governance framework could benefit from an alignment and greater continuity of national strategies and plans.** Gender equality objectives are incorporated and supported by several strategies, including Jordan's Vision 2025 and Jordan's Investment Promotion Strategy. These strategies, however, are not always developed in a co-ordinated manner. Moreover, continuity as well as access to these strategies is not always ensured. Information on strategies and plans could be centralised on a single platform with links to the websites of the various ministries and made easily accessible to ministries, agencies, investors and all actors involved in improving the impact of FDI on women's economic participation.
- **Coordination mechanisms of relevant government actors could be strengthened to ensure better integration of gender objectives into labour market, entrepreneurship and investment policies.** Jordan has several platforms to ensure co-ordination between government actors, however some of these mechanisms could be reinforced. In particular, the network of gender units in relevant ministries could be expanded. For example, the creation of

a gender unit within the Ministry of Trade, Industry and Supply (MoTIS) could help to integrate gender considerations into entrepreneurship and investment policy. In addition, the role of the National Contact Point for Responsible Business Conduct (NCP for RBC) within the Ministry of Investment (MoI) should be strengthened, as it is a potentially important link between investment policy and gender equality. This includes ensuring that the NCP has sufficient resources to fulfil its mandate.

- **Setting up a system to monitor and evaluate policies to support women’s economic integration can help to improve their effectiveness and co-ordination.** Jordan has launched several policy initiatives to support women’s economic integration. However, the number of initiatives is not in itself an indicator of success and the lack of more detailed information on these initiatives, for instance on resources allocated, number of beneficiaries, etc., does not allow to assess their impact. Improving the collection of data, for example through the creation of a repository or a shared platform, can help to assess their effectiveness and improve their co-ordination.
- **Reducing restrictions on FDI in service sectors could unlock significant employment opportunities for women.** Restrictions on FDI are high in some service sectors such as hotels and restaurants and financial services. In addition, restrictions on foreign personnel in some sectors such as ICT, energy, engineering, professional services and banking, while not discriminatory, are particularly burdensome for foreign investors. These sectors are important employers of women globally, suggesting that easing restrictions on FDI and on foreign personnel could generate jobs that could be filled by women.
- **Continuing the labour market reform process to promote women’s economic inclusion could increase the positive contribution of FDI to gender equality.** Recent reforms of the Labour Law and the Social Security Law have addressed the main gender equality gaps in Jordan’s labour market. However, some important legal barriers to women’s economic participation persist in domestic legislation in areas such as motherhood (e.g. the duration of maternity leave in both the private and public sectors is shorter than the ILO recommended duration of 14 weeks), sexual harassment at work and inheritance.
- **Improving the existing offer of programmes for women entrepreneurs can help them connect with foreign businesses and expand.** Jordan has several policy initiatives in place for women entrepreneurs, offering a combination of financial and technical assistance. These initiatives could also help women-owned/led businesses to connect with foreign companies and take advantage of business opportunities along their supply chains. For example, they could include supplier development programmes to strengthen the capacity of women-owned/led enterprises to meet specific supply needs of foreign companies as well as matchmaking services between domestic and foreign companies (e.g. the organisation of events/meetings between buyers and suppliers or the development of a database of local women suppliers). These programmes and services could be extended to all domestic enterprises to strengthen business linkages with foreign enterprises, creating job opportunities for women in Jordan.
- **Increasing the provision of information and facilitation programmes to overcome social and cultural barriers that prevent women in Jordan from participating in the labour market.** FDI is an important driver of job creation for women in Jordan, however Jordanian women are not always able to take advantage of these opportunities due to various social and cultural barriers. Information campaigns to inform communities and families about working conditions and policies to improve women’s safety (e.g. through the provision of safe public transport service) could improve the positive impact of FDI on women’s employment.

4.2. Overview of women’s economic participation in Jordan

Like most countries in the MENA region, Jordan lies at the bottom of the WEF’s Gender Gap Index 2021 in terms of economic participation and opportunity (133rd out of 156 countries). Despite its progress towards greater inclusion of women in economic life and the advancements of women’s rights and equal opportunities, Jordan still faces significant challenges in numerous areas related to women’s economic participation. Most of these challenges have been exacerbated by the COVID-19 pandemic, which has affected women and men differently due to their different roles in the labour market and society.

Gender equality in education is one of the areas where Jordan has made significant strides in recent decades. The literacy rate for women has increased considerably over the past two decades, from 85% in 2003 to 98% in 2018, exceeding the MENA average by 10 percentage points (UNESCO, 2021^[11]). Gender gaps in educational enrolment are low or in favour of women, particularly in tertiary education (5 percentage points in favour of women). Enrolment rates for women, however, are below the MENA regional average in all school levels (UNESCO, 2021^[2]). The OECD Programme for International Student Assessment (PISA) reveals that in Jordan girls outperform boys in all subjects, including mathematics (Table 4.1). Yet, there are few women pursuing careers in science, technology, engineering and mathematics (STEM) disciplines. Less than a quarter of Jordanian researchers in STEM subjects are women, a lower share than that observed in some regional peers such as Egypt where more than 40% of STEM researchers are women (UNESCO, 2021^[3]). Furthermore, female students have been penalised more than male students by the COVID-19 pandemic and related containment measures due to their more limited access to technology and higher domestic responsibilities (CSS, 2020^[4])

Table 4.1. Jordanian girls outperform boys in all subjects

Performance on PISA tests, mean score by gender (2018)

	Average score on reading literacy		Average score on mathematical literacy		Average score on scientific literacy	
	Female	Male	Female	Male	Female	Male
OECD	502	472	487	492	490	488
Jordan	444	393	403	397	444	414
Morocco	373	347	367	368	381	372
Tunisia	373	348	364	370	385	388

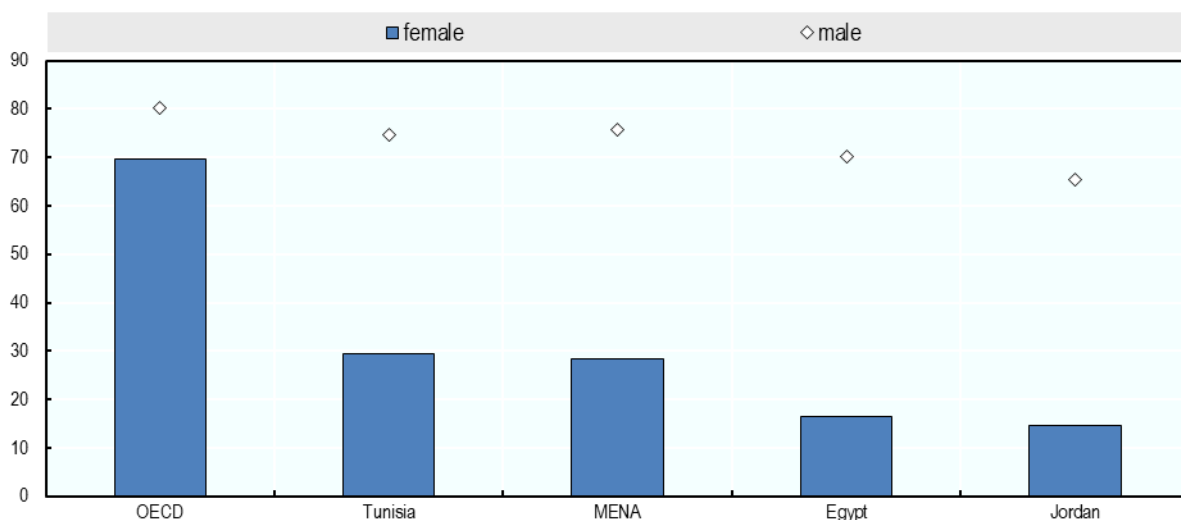
Note: A higher score corresponds to a better performance. The OECD’s Programme for International Student Assessment (PISA) is a standardised assessment of reading, mathematics and science skills administered to 15-year-old students. Year of reference is 2015 for Tunisia. Source: OECD (2018^[5]), PISA 2018 Results (Volume I): What Students Know and Can Do, <https://doi.org/10.1787/5f07c754-en>.

A growing pool of female talent in Jordan has not translated into better labour market outcomes for women. The female labour force participation rate is among the lowest in the MENA region and the world, at only 14%, compared to a male participation rate of 54% (Figure 4.1). Moreover, the female labour force participation rate has only increased by about 2 percentage points since 2000. Unemployment affects women more than men: 24% of women compared to 16% of men (ILO, 2021^[6]). The unemployment rate of women with tertiary education is even higher than that of women with lower levels of education. The pandemic and related mitigation measures have penalised female employment more than male employment. A survey of private sector employees conducted in Jordan in May 2020 found that nine out of ten respondents who had been laid off due to the COVID-19 crisis were women (CSS, 2020^[4]). Women in Jordan, like women globally, are paid on average less than men. After taking into account factors such as education, age, working time status and public and private sector, the mean hourly wage gap in Jordan is 15.5%, lower than that of the average upper middle-income country (20.9%), but higher than that of some regional peers such as Egypt (11.6%) and Tunisia (14.5%) (ILO, 2018^[7]). According to a report

prepared by the Jordanian National Commission for Women (JNCW), during the COVID-19 pandemic, women were affected more than men by wage cuts due to their lower bargaining power (JNCW, 2020^[8]).

Figure 4.1. Female labour force participation is one of the lowest in the region and the world

Labour force participation (%), by sex (2019)



Note: Year of reference is 2017 for Tunisia.

Source: OECD calculations based on ILO (2021^[9]).

As in most countries, relatively more women than men work in the public sector (37% compared to 18% for men). This share is also higher than the MENA average (31%) and the OECD average (19%). About 70% of women are employed in services such as education, health and social work, and other non-market services, compared to about 34% of men (Figure 4.2). Studies show that women have been disproportionately affected by the COVID-19 crisis due to their high representation in the health and education sectors. Women working in these sectors have seen their workload increase dramatically and have been at greater risk of being infected (UN Women, 2020^[10]). Women in Jordan also face significant gender occupational segregation. As in the rest of the MENA region, women are more likely to work in elementary occupations, clerical support workers, technicians and associate professionals than their male counterparts. Moreover, only 4% of women are managers, compared to 7% of men (ILO, 2018^[11]). Gender gaps are also significant in the political and legal professions: in Jordan, women hold less than a quarter of cabinet posts and only 22% of judges and 26% of lawyers are women (Jordan, 2021^[12]).

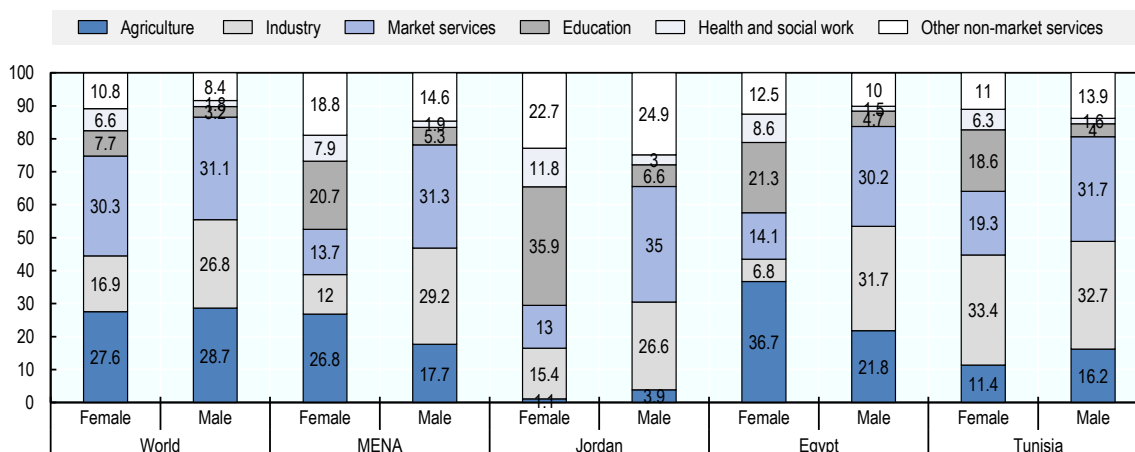
Consistent with global and regional trends, women in Jordan are less likely than men to be in informal employment: 30% of women compared to 56% of men (ILO, 2021^[13]). Both shares are lower than those observed in the MENA region (45% for women and 58% for men). The lower presence of female workers in informal employment is explained by the fact that a large share of women are employed in the public sector, which is more likely to offer formal employment contracts and better access to social protection (OECD/ILO/CAWTAR, 2020^[14]). In line with what is observed in most countries, the share of Jordanian women in informal employment is significantly higher in agriculture, 93%, although less than 2% of women work in the sector. Immigrant women, particularly Syrian refugee women, are also more likely to have informal jobs than Jordanian women (OECD/ILO/CAWTAR, 2020^[14]). Refugee women have been disproportionately disadvantaged by the pandemic and lockdown measures. A survey conducted in April 2020 among women beneficiaries of UN Women Oasis who were employed in the informal sector before the onset of the crisis revealed that 99% of them had lost their jobs. These women did not have

access to unemployment benefits and faced an increased risk of gender-based violence, food and economic insecurity (UN Women, 2020^[15]).

In Jordan, women are underrepresented among entrepreneurs. According to the Global Entrepreneurship Monitor (GEM) 2019-20, only 59 women engage in entrepreneurial activities for every 100 men. Moreover, the COVID-19 crisis has hit female-owned businesses harder. A survey indicates that a higher proportion of female than male business owners (59:51) reported accumulating large instalments/debts during the pandemic (CSS, 2020^[4]). This is also due to the greater difficulties women have in accessing credit. Access to financial and productive resources, in particular land, is essential to start a business, as these resources can be sold or used as collateral for loans to finance the business. The OECD's Social Institutions and Gender Index (SIGI) 2019 indicates that women in Jordan face one of the highest levels of discrimination in access to productive and financial resources in the world: 43%, compared to a global average of 27%. The SIGI results also show that women face a very high level of discrimination in relation to legal rights to inherit land and non-land assets. Difficulties in accessing formal financial services is a critical obstacle to female entrepreneurship. In Jordan, only 27% of women have a bank account, compared to 56% of men, and only 14% of women report borrowing from financial institutions, against 19% of men (World Bank, 2017^[16]).

Figure 4.2. About 70% of Jordanian women are concentrated in education, health and non-market services

Employment distribution by gender and economic activity (2018)



Source: OECD calculation based on (ILO, 2021^[17]).

Discriminatory social attitudes and norms hold back women's economic participation in Jordan. According to the SIGI results, 30% of the Jordanian population says that it is not acceptable for a woman to work outside the home to get paid, 18% of women in Jordan condone domestic violence under certain circumstances and 24% of women report having experienced domestic violence at least once in their lives. In addition, only 38% of men find it acceptable for women to work in mixed workplaces and only 26% accept that women can go home from work after 5pm (World Bank, 2018^[18]). Moreover, women in Jordan, as in most countries, invest more time than men in unpaid work, such as childcare, care of the disabled and elderly, and domestic work. In particular, Jordanian women spend 17 times more time than men in unpaid work (compared to a global average of 3.2), while men spend 6.5 times more time than women in paid work (compared to a global average of 1.8) (UN Women, 2020^[10]). Furthermore, the pandemic has led to an increase in women's unpaid care workload as a result of school closures and the interruption of market services that are substitutes for home production (e.g. restaurants). In Jordan, it is estimated that

for married women with school-age children, the increase in unpaid working time has been up to 18-24 hours per week. Particularly in the case of women in paid employment, this has created a workload of 80-85 hours per week (UN Women, 2020_[10]).

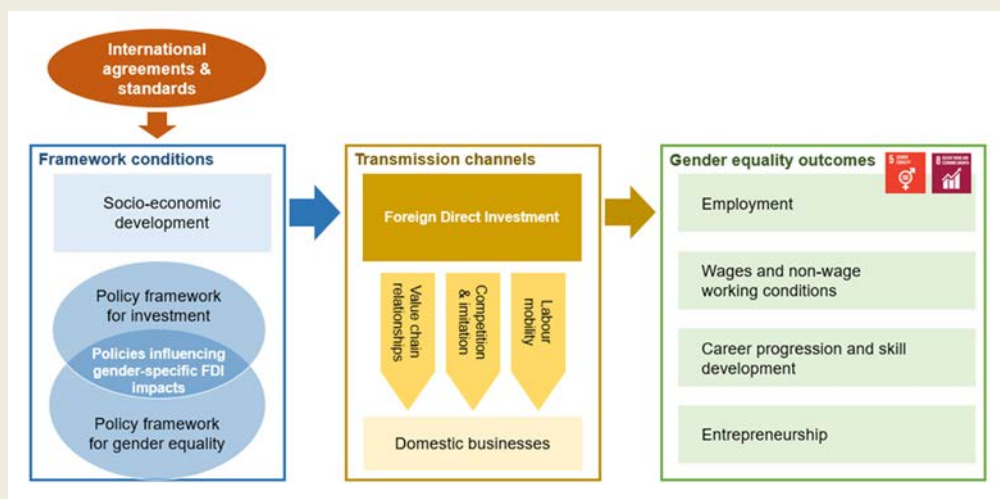
4.3. FDI impacts on gender equality and women's empowerment in the labour market

Through the operations of foreign affiliates of MNEs, FDI can contribute to improving women's inclusion in the host country labour market (Box 4.1). This section discusses the contribution of FDI to women's economic participation in Jordan, particularly in relation to employment, wages, career progression and entrepreneurship. An assessment of the channels through which FDI can influence women in the host labour market is conducted, with a focus on the employment activities and practices of locally established foreign affiliates and supply chain linkages between domestic and foreign firms.

Box 4.1. The transmission of FDI impacts on gender equality in the labour market

Direct investment by foreign MNEs generates multiple gender-specific effects in the labour market of host countries. FDI influences the relative demand and prices of factors of production, including labour. Since men and women have different preferences and skill sets due to policy and non-policy factors (taxation, social and cultural norms, etc.), and different industries employ different intensities of male and female labour, FDI generates shifts in the relative demand for labour by gender and changes the employment and wages of women and men differently. FDI can also influence other dimensions of gender equality and women's empowerment in the labour market, such as women's non-wage working conditions (e.g. job security, occupational health) and prospects for skills development and career advancement (e.g. training, promotion). The operations of affiliates of foreign MNEs can also have significant implications for local women entrepreneurs (green box in Figure 4.3).

Figure 4.3. The transmission channels of FDI impacts on gender outcomes



FDI can influence the above gender outcomes through the direct operations of foreign MNEs or indirectly through supply chain linkages and other market interactions with domestic firms. The literature identifies four main channels through which FDI impacts gender outcomes (transmission channels, yellow box). These are:

- **MNE direct activities.** FDI affects women in host countries mainly through the direct employment activities and practices of foreign MNEs (recruitment, remuneration, training, promotion, etc.).
- **Value chain relationships.** FDI can create jobs for local women in domestic companies through business opportunities generated with local suppliers (i.e. vertical linkages) or through global value chains (e.g. through subcontracting or outsourcing). Through value chain relationships, FDI can also generate new business prospects for local women entrepreneurs.
- **Competition and imitation effects.** Foreign MNEs compete with local firms both in product markets (crowding-out) and in labour markets for local talent. Especially in female-dominated sectors, competitive pressures from foreign MNEs can lead to job losses for women if domestic firms downsize or close down. As women-owned firms are generally smaller and less productive than those owned by men, they are also more likely to be negatively affected by foreign competition. Imitation effects occur when domestic firms imitate the business practices of the MNE, including practices in relation to gender.
- **Labour mobility.** This channel involves movements of women workers from foreign MNEs to domestic enterprises or the start-up of enterprises by women previously employed by foreign MNEs. Women could also use the knowledge gained at the foreign MNE to set up their own company.

The direction and magnitude of gender-specific FDI impacts depend on several factors, including the types of FDI (e.g. efficiency-seeking FDI vs market-seeking FDI), the sector in which the investment takes place (e.g. female-dominated vs male-dominated), and the policy and non-policy framework conditions of the host country (blue box). Non-policy framework conditions refer to the level of socio-economic development of the host country, including prevailing gender norms and values. Policy framework conditions include a broad set of policies at the intersection of gender equality and investment promotion.

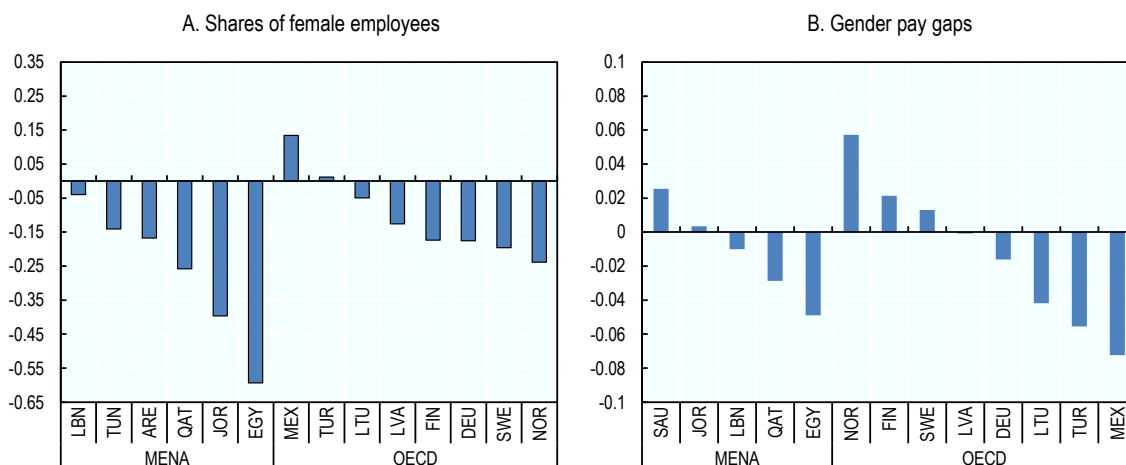
Source: OECD (2021^[19])

4.3.1. FDI is concentrated in sectors with fewer women but lower gender pay gaps

During the last two decades, about 70% of greenfield FDI flows in Jordan have been directed to energy (oil and gas) and real estate services, two sectors dominated by men. About 20% of greenfield FDI flows went to the manufacturing sector, which employs significant proportions of women, especially in garments and textiles. Although this is a significant share, greenfield FDI flows into the manufacturing sector have declined steadily since the 2008 global financial crisis. A bit less than 10% went to market services such as finance, ICT, transport and tourism. Although the share of greenfield FDI in these sectors is still modest, these sectors have attracted increasing flows in recent years. A negligible share of greenfield FDI flows went to sectors such as education, health and social services, where almost 70% of women are employed (Figure 4.2). A closer look at how greenfield FDI contributes to gender employment equality in Jordan shows that greenfield investment projects are prevalent in sectors that have relatively lower shares of female than male employees, such as energy, construction, real estate and business services (panel a, Figure 4.4). Similar results are observed in most MENA and OECD countries, where FDI also tends to be concentrated in male-dominated sectors such as construction, real estate, transport services and medium/high value-added manufacturing. These include countries with high levels of gender equality such as Norway, Sweden, Germany and Finland. A negative relationship between FDI and gender employment equality is also often found in countries with large natural resource sectors such as Qatar and the United Arab Emirates.

Figure 4.4. Greenfield FDI is prevalent in male-dominated sectors with lower pay gaps in Jordan

Does FDI go to sectors with better gender equality outcomes? >0, yes; <0 no



Note: Panel a: Share of female employees in total employees. Data refer to 2019 (2017 for Tunisia). Panel b: Wage gaps are calculated as the ratio between the average monthly wages of women and men. Data refer to 2019. Indicators in both panel a and b do not cover agriculture and include manufacturing as one sector. This figure shows a Type 2 FDI Qualities indicator. See Annex B of OECD (2019[20]) for a description of the methodology.

Source: OECD elaboration based on Financial Times' fDi Markets database (greenfield FDI); ILO (Employees by sex and economic activity (Panel A) and Mean nominal monthly earnings of employees by sex and economic activity (Panel B); and UN National Accounts (gross value added).

At the same time, greenfield FDI in Jordan is concentrated in sectors where the wage gap between women and men is relatively lower (Panel B). This suggests that women working in the male-dominated energy, construction, real estate and business services sectors have on average better paid jobs (e.g. white-collar jobs such as accountants, architects, designers) than men (e.g. blue-collar jobs such as construction workers, machine operators, truck drivers). A positive association between greenfield FDI and gender pay equality is also observed in more gender-inclusive countries such as Norway, Sweden and Finland compared to less gender equal countries such as Egypt, Turkey and Mexico.

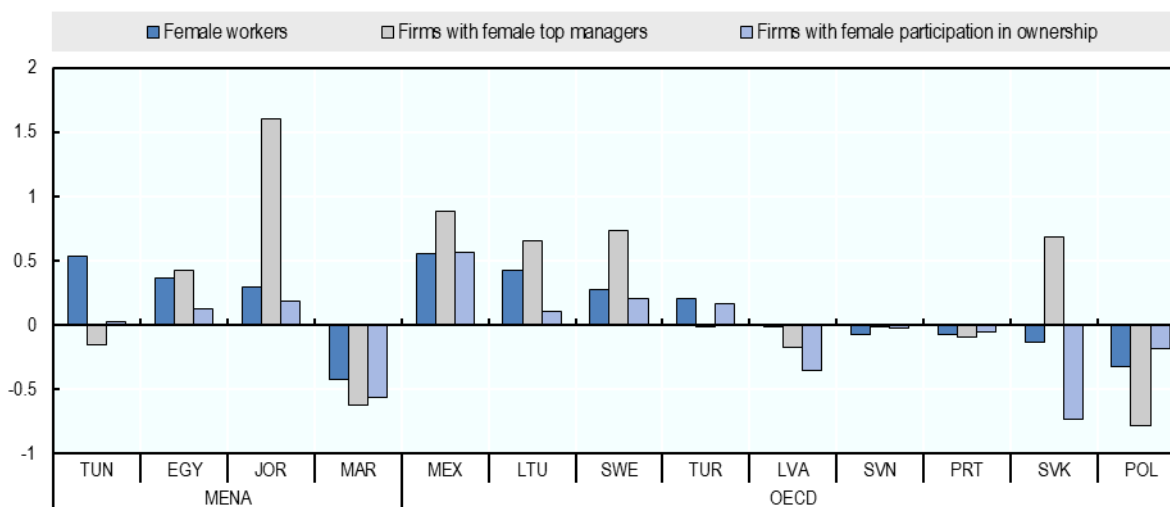
4.3.2. Manufacturing FDI support women's employment and empowerment

About 20% of greenfield FDI received by Jordan in the last two decades was directed to the manufacturing sector. Following the 2008 financial crisis, however, greenfield FDI flows into manufacturing have progressively decreased due to a loss of competitiveness in the sector (Chapter 2). Greenfield manufacturing investment is prevalent in sectors such as garments, textiles, food and chemicals, which have relatively high shares of women (Figure 4.5). Since the 1990s, many foreign garment and textile companies have located in Qualifying Industrial Zones (QIZs) to take advantage of duty-free exports to the United States (Box 3.2 in Chapter 3). Many women, in particular immigrant from Bangladesh, China, India, and Sri Lanka, have found work in these zones (World Bank, 2011_[20]). Greenfield FDI is also concentrated in industries with relatively higher female labour intensity in several MENA and OECD countries with large food and garment industries, such as Tunisia, Egypt and Mexico. This positive relationship between greenfield FDI in manufacturing and female employment is often observed in countries with a comparative advantage in low value-added industries. Such industries tend to employ low-cost labour, including many women (OECD, 2019_[21]).

Greenfield FDI in Jordan is also concentrated in industries with a higher share of companies with women in top positions and female principal owners. These industries are the same ones that employ higher shares of female workers, namely food, clothing and textiles. This suggests that these FDI-intensive industries create jobs for women not only in low-skilled, labour-intensive positions such as assembly work, but also in higher-skilled jobs such as management. FDI is directed towards industries with higher shares of companies with women in top positions and female principal owners also in most MENA and OECD countries with important food and garment industries.

Figure 4.5. Foreign activity is higher in industries with better gender equality outcomes

Is foreign firm activity higher in sectors with better gender equality outcomes? >0 yes; <0 no, 2019



Note: Female workers: share of female workers in total workers; firms with female top managers: share of firms with female top managers in total number of firms; Firms with female participation in ownership: share of firms with female participation in ownership in total number of firms. Year of reference is 2019 (2014 for Sweden and 2020 for Tunisia and Egypt). This figure shows a Type 2 FDI Quality indicator. See Annex B of OECD (2019) for a description of the methodology.

Source: OECD elaboration based on the World Bank Enterprise Surveys.

4.3.3. Foreign firms are not more gender-inclusive than domestic firms

Foreign investors in Jordan outperform domestic companies on several performance measures, but not always in terms of gender equality (Table 4.2). Foreign firms are more productive, pay higher wages (as suggested by their higher annual labour costs), are more export-oriented and have a higher percentage of female employees (36% compared to 24% for domestic firms) than their domestic peers. A lower percentage of foreign firms, however, have female top managers (4% compared to 6% of domestic firms) and female principal owners (11% compared to 21% of domestic firms).

Similar results apply to other countries in the MENA region, e.g. Tunisia and Egypt, as well as to several OECD countries. While foreign firms tend to have higher proportions of female workers (panel a, Figure 4.6), they are less likely to have female top managers (panel b) and female principal owners (Panel C) than domestic firms. The point estimates, however, are not always statistically significant, suggesting that differences between foreign and domestic firms in relation to gender practices, if they exist, should be attributed to factors other than ownership, for example the sector or the nationality of the firm. Indeed, recent studies find that firms from more gender-equal countries tend to hire more women, including in top positions, and to have more gender-inclusive employment practices than firms from less gender-equal countries (Kodama, Javorcik and Abe, 2018^[22]; Tang and Zhang, 2017^[23]).

Table 4.2. Foreign companies have larger shares of female workers, but are less likely to have female top managers and owners

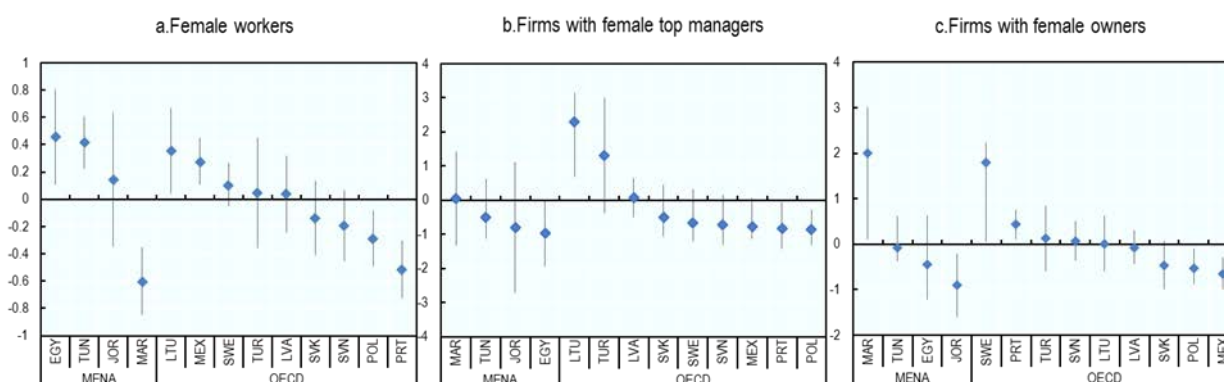
Differences between foreign and domestic manufactures in Jordan, 2019

	Manufacturing	
	Domestic firms	Foreign firms
Labour productivity (in mln USD)	22 867	38716
Average annual labour cost (in mln USD)	4 145	5573
Export intensity (%)	17%	51%
Female employees (% total employment)	24%	36%
Firms with female top managers (% of firms)	6%	4%
Firms with female participation in ownership (% of firms)	21%	11%
Number of firms	240	27

Note: Average values for domestic and foreign firms in the manufacturing sector. Labour productivity: value added per employee. Export intensity: share of production that is exported. Annual labour cost: wage, bonuses, and social security payments.
Source: OECD elaboration based on the World Bank Enterprise Survey (WBES) of Jordan.

Figure 4.6. In several countries domestic firms perform better in terms of gender equality

Do foreign firms have better gender equality outcomes? >0 yes; <0 no



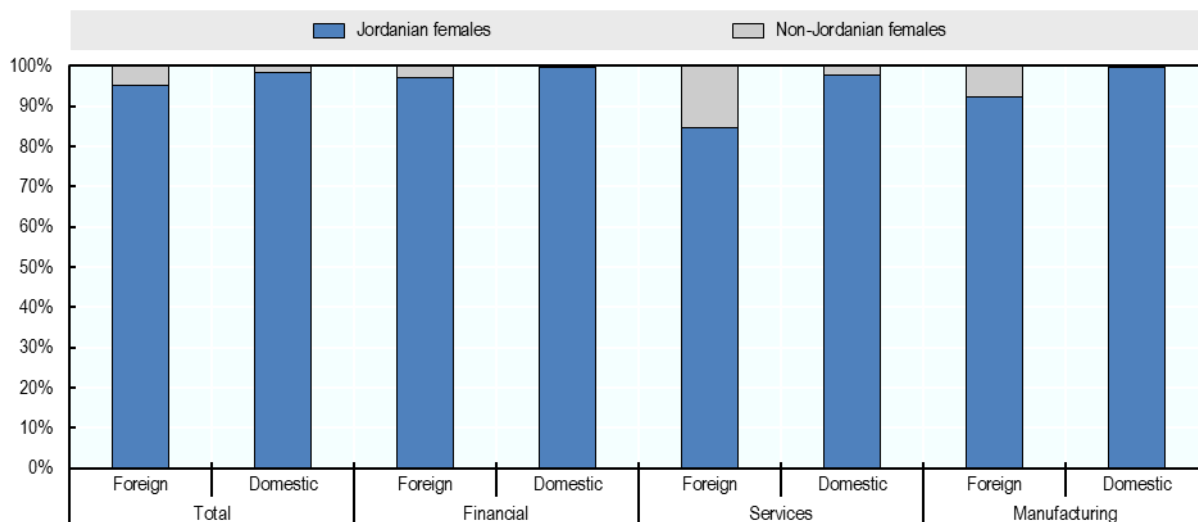
Note: Female workers: share of female workers in total workers; firms with female top managers: share of firms with female top managers in total number of firms; Firms with female participation in ownership: share of firms with female participation in ownership in total number of firms. Year of reference is 2019 (2014 for Sweden and 2020 for Tunisia and Egypt). All panels show a type 1 indicator and its 95% confidence interval. See Annex B of (OECD, 2019_[21]) for a description of the methodology.

Source: OECD elaboration based on the World Bank Enterprise Surveys (WBES).

A database of companies listed on the Amman Stock Exchange (ASE) provides additional information on gender-related employment trends in foreign and domestic companies. Most of the companies operate in the financial sector, however the database also covers companies in other services sectors and manufacturing. The data show that foreign listed companies account for 77% of total female employment, corresponding to more than 9 400 jobs (domestic companies account for the remaining 23%, corresponding to about 2 800 jobs). They also show that foreign listed companies employ higher percentages of non-Jordanian women than domestic companies, especially in services (Figure 4.7).

Figure 4.7. Foreign firms employ higher shares of both Jordanian and non-Jordanian women

Female employment by nationality of worker, enterprise ownership and sector (% of total)



Note: Foreign-owned companies are listed companies with 10% foreign ownership or more.

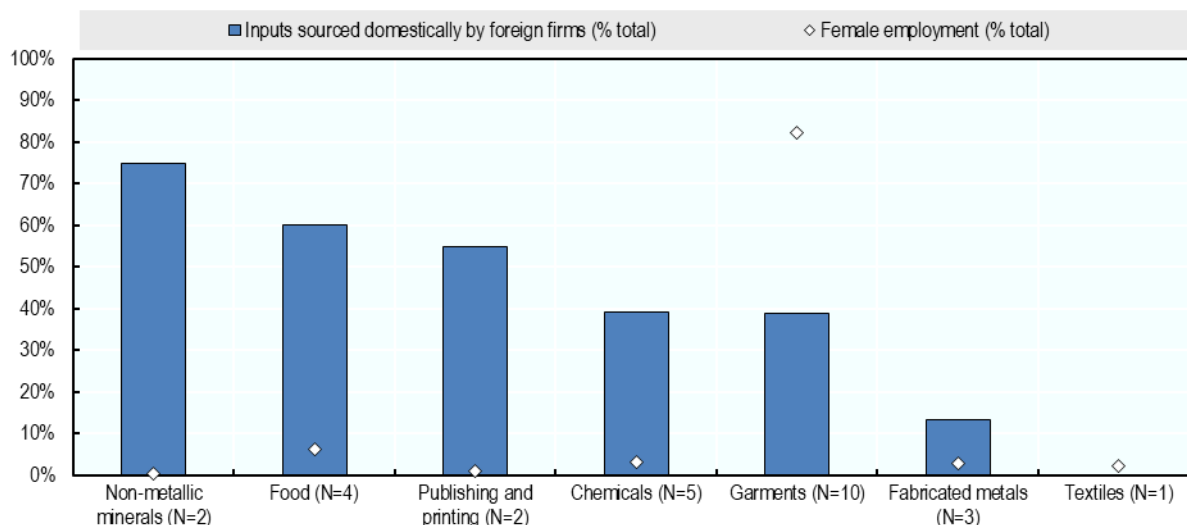
Source: OECD calculations based on Amman Stock Exchange database.

Further insights on the employment practices of foreign investors are provided by some studies on Qualifying Industrial Zones (QIZs), where many foreign companies in the garment and textiles industry have located since the 1990s to take advantage of duty-free access to the US market (see Box 3.2 in Chapter 3). More than half of the workers employed in QIZs are women and most of these women are immigrants, predominantly from Bangladesh, China, India, and Sri Lanka (Government of Jordan, 2019^[24]). Working conditions of women in QIZs have often been described as difficult: women tend to be employed as line workers, are underpaid and in some cases have to travel significant distances because the zones are located far from villages (World Bank, 2011^[20]). These are some of the reasons why only a few Jordanian women have been employed in QIZs (Bolle, Prados and Sharp, 2006^[25]). Most women in QIZs also have low levels of education, which limits their opportunities for training and promotion. A wide range of labour rights violations have also been recorded within QIZs, and the country was included on the US State Department's list of goods produced by child labour or forced labour from 2009 to 2016. The government has recently undertaken measures to improve working conditions in QIZs, also with the aim of attracting Jordanians job seekers, including women.

4.3.4. Foreign-domestic linkages are significant in industries that employ many women

In Jordan, supply chain linkages between domestic and foreign firms are lower than in other non-OECD countries (Chapter 2), but still significant especially in some sectors that employ high proportions of women (Figure 4.8). For example, in the garment sector where more than 80% of workers are women, about 40% of inputs bought by foreign firms are of domestic origin. Higher or similar shares are observed in food (60%) and chemicals (39%), two sectors that employ significant proportions of women. Supply-chain linkages between foreign and domestic firms are an important driver of job creation for women, especially in female-dominated industries such as garments, textiles and light electronics, as several studies conducted in Asia have shown (Carr and Chen, 2005^[26]). These studies, however, also highlight that job opportunities created through supply chain linkages, particularly via subcontracting and outsourcing, are often associated with precarious work conditions. In some countries, these linkages have also encouraged the proliferation of jobs outside the formal economy (Braunstein, 2009^[27]).

Figure 4.8. In the female-dominated garment sector foreign firms source domestically 40% of their inputs



Note: Data refer to 2019.

Source: OECD elaboration based on the World Bank Enterprise Surveys (WBES).

Studies conducted in Jordan in the early 2010s indicate that the operations of foreign firms led to positive spillovers to their suppliers and buyers in terms of job creation (Chapter 3). However, these spillovers were significantly smaller in the manufacturing sector, particularly in the pharmaceutical industry (Sahnoun et al., 2014^[28]). This could be explained by the fact that supply-chain linkages between foreign and domestic firms are weaker in Jordan than in other countries. Moreover, recent evidence suggests that foreign firms purchase their inputs mainly from other locally established foreign firms (OECD, 2021^[29]).

4.4. The institutional framework affecting the impact of FDI on gender equality

The following section examines the institutional framework influencing the impact of FDI on gender equality and women's empowerment in the labour market. It discusses how gender equality goals are integrated and supported by national strategies. It then identifies the governmental institutions responsible for designing and implementing relevant policies and programmes and assesses their co-ordination mechanisms.

4.4.1. National strategies and plans support women's economic participation

The promotion of women's economic participation is high on Jordan's political agenda and well reflected in the country's strategic planning documents (Box 4.2). The National Strategy for Women, prepared by the Jordanian National Commission for Women (JNCW), is a key reference point for women's rights. The current strategy for 2020-25 (JNCW, 2020^[30]) aims to create decent jobs for women and to promote female entrepreneurship, leadership opportunities for women, education for girls and the provision of gender-sensitive infrastructure (e.g. safe and accessible transport). Another important policy document is the Women's Economic Empowerment Action Plan 2019-24 (World Bank, 2019^[31]), developed by the Mashreq Gender Facility under the responsibility of the JNCW, which emphasises the need to strengthen the government's capacity to address challenges to women's economic participation.

Jordan's policy priority of increasing the economic participation of women is well aligned with its ambition to become a prosperous, sustainable and inclusive economy, as described in its national development plan Vision 2025 (Government of Jordan, 2020^[32]). Vision 2025 provides a roadmap for Jordan's future development in which economic growth is linked to increasing citizens' well-being, reducing poverty and unemployment, and improving the economic participation of vulnerable groups, such as youth and women. According to Vision 2025, citizens, one of the four key pillars of the plan, are at the centre of this development process and their increased participation in the labour force, employment and education are important conditions for achieving the target of a 7.5% GDP growth rate by 2025. The development plan contains several objectives to improve women's participation in economic life and sets an ambitious target to increase women's participation in the labour force by 24% by 2025. The strategy gives private investment, particularly foreign investment, an important role and identifies sectors with high growth potential, including sectors that employ many women, such as health care and educational services.

Jordan's goal of improving women's economic participation is also supported by its investment promotion strategy (JIC, 2016^[33]). While the strategy does not contain explicit references to gender equality or women's empowerment, it emphasises the importance of attracting foreign investment that creates quality jobs. The strategy refers directly to Jordan's economic development plan, Vision 2025, which places considerable emphasis on the well-being of all Jordanian citizens and aspires to a model of economic growth that provides opportunities for all. In addition, the strategy identifies a list of target sectors for investment promotion, including major employers of women such as chemicals, consumer products (e.g. cosmetics), garments and health care. Companies investing in these sectors are eligible to receive incentives and other benefits, which can support gender equality and women's empowerment through the creation of job opportunities for women. Several other priority sectors identified in the strategy, such as tourism, business services, information technology, have the potential to create many jobs for women, as they are main employers of women globally.

While gender equality goals and the role of investment in supporting Jordan's sustainable and inclusive growth are well reflected in the various strategies, the process of designing and co-ordinating these strategies could be improved. All sectoral strategies refer to Vision 2025, but they are all introduced separately with little cross-referencing. Some strategies have reached the end of their applicability but have not been renewed (e.g. Jordan's Investment Strategy 2016-19). Others have been updated but are not available online or are not accessible in English (e.g. the National Strategy for Women 2020-25). Jordan's governance framework could benefit from an alignment and greater continuity of strategies. Information could be centralised on a single platform with links to various ministries' websites and made easily accessible to various users, including ministries, agencies, investors and all actors involved in improving the impacts of FDI on women's economic participation.

Box 4.2. National strategies and plans promoting women's economic participation

National Strategy for Women 2020-25: Developed by the Jordanian National Commission for Women (JNCW) under the directives of the Prime Ministry and the supervision of the Inter-Ministerial Committee for Women's Empowerment (IMC), the National Strategy for Women 2020-25 (JNCW, 2020^[30]) is a key reference document for improving the economic, social and political rights of women in Jordan. Two of the four main goals of the strategy explicitly relate to improving women's economic participation. Specifically, Goal 1 focuses on creating decent jobs for women, promoting women's entrepreneurship, increasing leadership opportunities for women, and providing accessible and gender-sensitive infrastructure such as safe and affordable transport. Goal 3 concerns the promotion of gender equality in education.

Women's Economic Empowerment Action Plan 2019-24: Designed with the support of the Mashreq Gender Facility under the responsibility of MoPIC and JNCW, the action plan has two main objectives

(World Bank, 2019^[31]). The first objective focuses on creating a safe and discrimination-free work environment and strengthening the government's capacity to address constraints to women's economic participation. The second objective emphasises the creation of decent jobs for women and the promotion of female entrepreneurship.

Jordan's National Development Plan, Vision 2025: Prepared by the Ministry of Planning and International Co-operation (MoPIC), Vision 2025 (Government of Jordan, 2020^[32]) includes two main policy priorities: i) increasing women's participation in the labour force ('Citizen' pillar) and ii) supporting women-owned enterprises ('Enterprise' pillar). The strategy also sets an ambitious target to increase female labour force participation to 24% by 2025. According to the macroeconomic model used to develop Vision 2025, increasing female labour force participation from 15% to 27% within a decade would contribute to at least 5% of economic growth. Estimates also predict a positive impact on public finances due to an increase in the formal labour force. In addition, the strategy emphasises the role of private investment, particularly foreign investment, and identifies service sectors with high growth potential, including: construction and engineering, transport and logistics, tourism and events, health care, life sciences, digital and business services, educational services and financial services. Some of these sectors are important employers for women, such as health care and educational services.

National Employment Strategy 2011-20: One of the objectives of the strategy (Government of Jordan, 2011^[34]) is to "increase women's participation rates in the labour market by broadening their options to enter the labour force through the removal of barriers, the provision of flexible options and an adequate working environment, and by reducing the wage gap for the same jobs as men" (under "Employment"). In addition, the strategy stresses the importance of creating investment patterns that lead to the growth of high value-added sectors, higher wages and more employment for both women and men (under "Investment Strategy").

Jordanian Economic Growth Plan 2018-22: The plan, which serves as a complement to the Jordan 2025 Vision, calls for the empowerment women in the public sector (Goal 4 under "Public Sector Development") and the promotion of women's participation in the industrial sector (Goal 4, "Industrial Sector").

4.4.2. The governance framework influencing FDI impacts on gender equality involves many actors

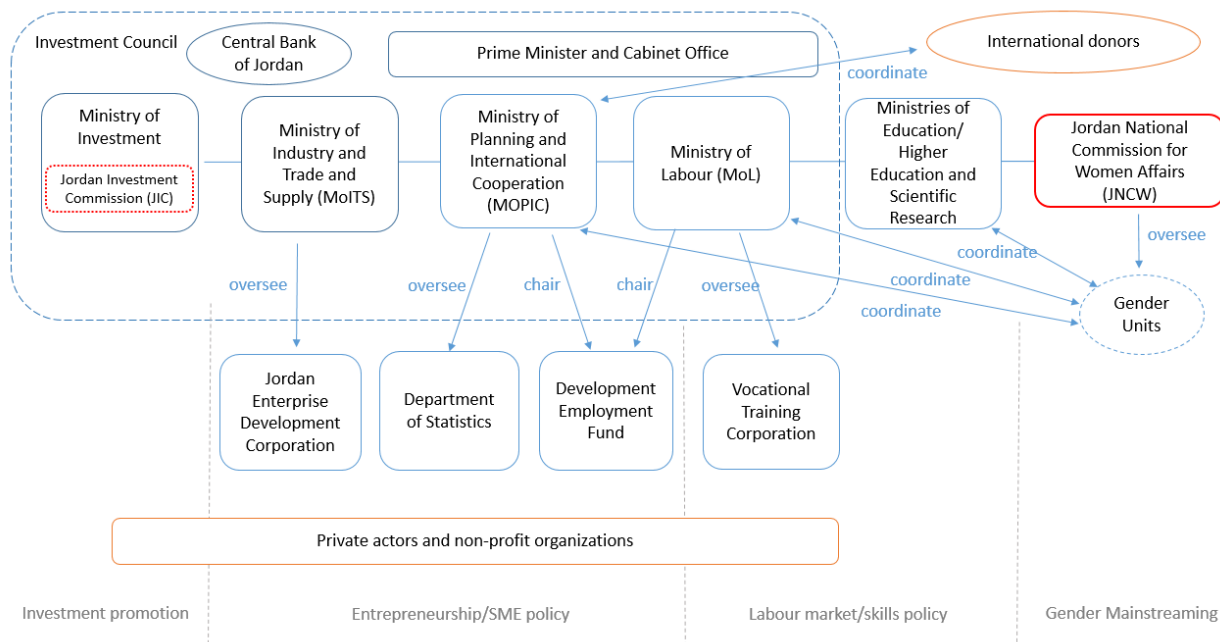
The policy framework underpinning positive impacts of FDI on gender equality and women empowerment in the labour market is governed by a complex network of governmental (ministries, the central bank, autonomous governmental bodies, implementing agencies) and non-governmental actors (private entities, non-profit organisations, international donors) with responsibilities and functions in different policy areas, such as investment, entrepreneurship/SMEs, labour market and skills policies, and gender mainstreaming (Figure 4.9).

The Jordanian Investment Commission (JIC) – Mol since 2021 – is the body responsible for promoting and facilitating foreign investment in the country. Mol also functions as a support agency for promoting exports in international markets. Mol is an autonomous and independent agency and is part of the Investment Council chaired by the Prime Minister and the Minister of Defence. Its services include providing information to foreign investors on investment opportunities in Jordan, managing registration and licensing of economic activities, including within development and free zones, granting incentives to investors, providing after-care services. Mol hosts the National Contact Point for Responsible Business Conduct (NCP for RBC), which is in charge of promoting the OECD Guidelines for Multinational Enterprises, including in relation to gender issues.

Policies to support women's inclusion in the economy pertain to various policy areas and involve various governmental actors, such as the Ministry of Industry, Trade and Supply, the Ministry of Labour, the Ministry of Education, the Ministry of Higher Education and Scientific Research and their implementing agencies. The Jordanian National Commission for Women (JNCW), the main focal point for women's affairs in Jordan, plays a key co-ordinating role on gender issues between these institutions.

The JNCW is a semi-governmental body that serves as a reference authority for women's affairs, women's empowerment and the promotion of gender equality in all spheres of life. Chaired by HRH Princess Basma Bint Talal, the JNCW's board consists of 22 members from relevant ministries, national councils and institutions and civil society. Its mandate is to mainstream gender into the political agenda and to revise and develop policies, plans and laws to ensure gender equality and eliminate gender-based discrimination. It also advocates for various issues through consensus building and coalitions with civil society and produces studies and guidelines on particular topics. Through its mandate, the JNCW has established gender focal points within relevant ministries to mainstream and integrate gender perspectives in their policies and programmes.

Figure 4.9. The institutional framework for FDI impacts on gender equality in Jordan



Entrepreneurship policy is the responsibility of the Ministry of Industry, Trade and Supply (MoITS). Jordan Enterprise Development Corporation (JEDCO), a key implementing agency of MoITS, supports the development of emerging enterprises and small and medium-sized enterprises (SMEs), including women-owned enterprises, through tailored technical and financial support. Despite the role that entrepreneurship, particularly SMEs, play in integrating women into the economy, MoITS does not have a gender unit.

The Ministry of Labour (MoL) is the main authority for labour policy, including vocational education and training policies, and supervises labour and employers' unions (Chapter 3). The MoL has a gender unit that is responsible for increasing women's participation in the labour market and raising awareness about the role of women in economic development and their rights and responsibilities as set out in the Labour Law. The Vocational Training Corporation (VTC), one of its implementing agencies, is responsible for providing vocational training opportunities to workers. Furthermore, the MoL chairs the board of the Development and Employment Fund, a financially and administratively independent entity, whose mandate is to provide adequate funding for low-income and unemployed individuals. Education and training policies

are the responsibility of the Ministry of Education and the Ministry of Higher Education and Scientific Research. Both ministries have a gender unit that is responsible for integrating a gender perspective into their policies, plans and programmes.

The Ministry of Planning and International Co-operation (MoPIC) participates in the formulation of general economic and social policy and supports the development of programmes and plans for its implementation. It co-ordinates and assists the Department of Statistics in determining the types of economic, social and demographic information and other statistical information, including gender-disaggregated data, the government may need for development plans. MoPIC is also responsible for developing and improving relations with donors and international financial institutions and co-ordinating and managing funding for development projects. The Gender Unit within the Ministry of Planning and International Co-operation has the mandate to train Ministry staff on gender mainstreaming and gender analysis, build the capacity of gender units in close collaboration with the JNCW, serve as a focal point for donors, and facilitate collaboration on gender issues between the ministry and other institutions.

In addition to government institutions, several private actors and non-profit organisations develop and implement policies that support the economic inclusion of women. These include the Jordan Forum for Business and Professional Women (a non-profit, non-governmental association of Jordanian business and professional women), the Jordan Loan Guarantee Corporation (a public company that provides loan guarantees for SMEs), the Microfund for Women (a non-profit microfinance institution for women entrepreneurs registered with the Jordanian Ministry of Industry and Trade and supervised by the Central Bank), Tamweelcom (a microfinance company, which supports micro and small business entrepreneurs), and the Royal Scientific Society (a non-profit organisation that provides consultancy, ICT services, training and certification services, among other services).

4.4.3. Several mechanisms ensure co-ordination between relevant governmental actors

Co-ordination between governmental entities in charge of investment and gender policies is crucial to ensure the complementarity of their actions and their alignment with broader national development objectives. Several mechanisms exist to ensure inter-ministerial co-ordination. These are the Investment Council (IC), the National Contact Point for Responsible Business Conduct (NCP for RBC), gender units located in some ministries, and the Inter-Ministerial Committee (IMC) on Women's Empowerment and Gender Equality (Figure 4.10).

The IC oversees the management and development of the national investment policy. It is chaired by the Prime Minister and the Minister of Defence, and includes among its members MoI, the Ministry of Trade, Industry and Supply (MoTIS), the Ministry of Labour (MoL), the MoPIC and the Central Bank of Jordan. Despite its co-ordination function between various ministries, it is not clear whether and how the members of the Investment Council use this platform to integrate gender considerations into investment policy. Among the IC members, the MoL and the MoPIC are the only ministries with a gender unit.

In addition, MoI hosts the NCP for RBC. The NCP, established following the adherence to the OECD Guidelines for Multinational Enterprises in 2013 (Box 4.4), has a dual mandate: to promote the OECD Guidelines and related due diligence guidance, including on gender issues, and to handle cases (referred to as 'specific instances') as a non-judicial complaint mechanism. The NCP is therefore a potential important link between investment policy and gender equality in Jordan. To date, however, the NCP has been largely inactive and no information is available on its activities and resources.

Gender units are an important tool for mainstreaming gender in the activities of key ministries. They are co-ordinated by and report directly to the Jordan National Commission for Women (JNCW). In collaboration with the JNCW, the gender units work to make progress on gender equality and women's empowerment in specific areas. They are present in several ministries, including the MoL, MoPIC, the Ministry of Education (MoE) and the Ministry of Higher Education and Scientific Research (MoHESR). Despite the

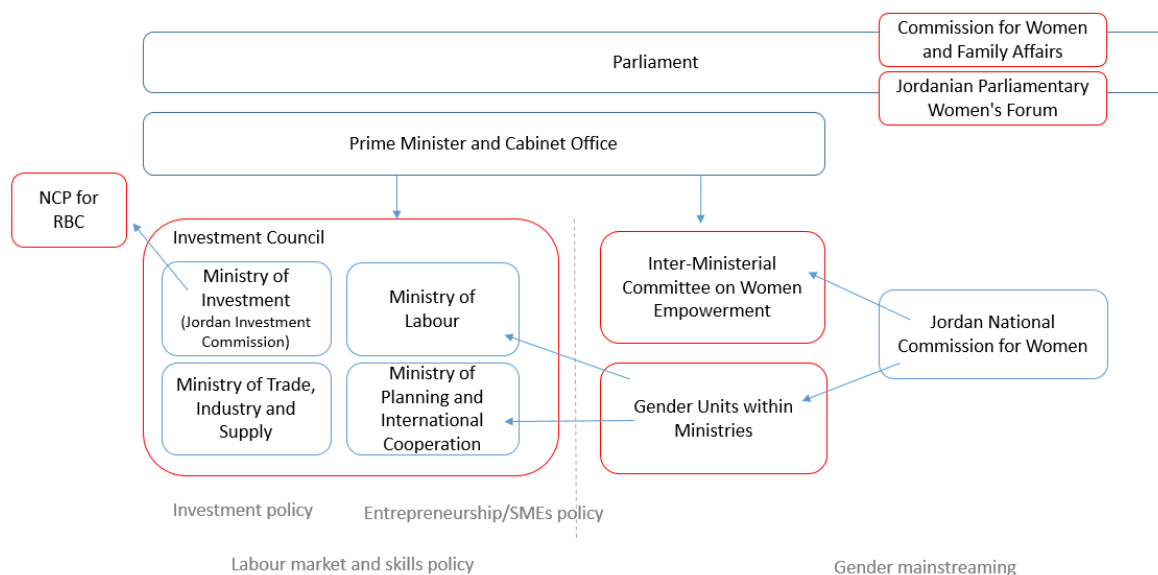
central role that entrepreneurship and SME policies play in the economic empowerment of women, MoTIS does not have a gender unit.

The Inter-Ministerial Committee (IMC) on Women's Empowerment was established in 2015 to facilitate co-ordination in government on gender actions, in accordance with the goals set out in Jordan Vision 2025. The IMC works at the ministerial level with a rotating chair and includes among its members the Secretary General of the JNCW. The IMC ensures the adoption of plans, policies and programmes to promote gender equality and women's empowerment, and in securing the necessary funds from government budgets for the implementation of these policy measures.

In addition to these co-ordination mechanisms, the MoPIC, which is responsible for the preparation of the National Economic and Social Development plan, plays a key role in ensuring the overall coherence of sectoral strategies and plans with national development objectives. MoPIC is also in charge of co-ordinating relations with donors and international financial institutions and managing funding for development projects. Together with the MoL, the MoPIC is an important link between investment policy and gender equality and women's empowerment policies as, in addition to being a member of the Investment Council, it is linked to the JNWC through the gender units.

At the legislative level, the Jordanian Women Parliamentarians Forum and the Commission for Women and Family Affairs in the House and Senate are responsible for reviewing legislation on women, family and children, and overseeing policies, plans and programmes for the social, cultural, economic and political empowerment of women. It is not clear to what extent these mechanisms are capable of ensuring that gender considerations are included and taken into account by the parliament when designing laws in areas such as investment and entrepreneurship/SMEs.

Figure 4.10. Institutional co-ordination mechanisms between governmental actors



4.5. The policy framework affecting the impact of FDI on gender equality

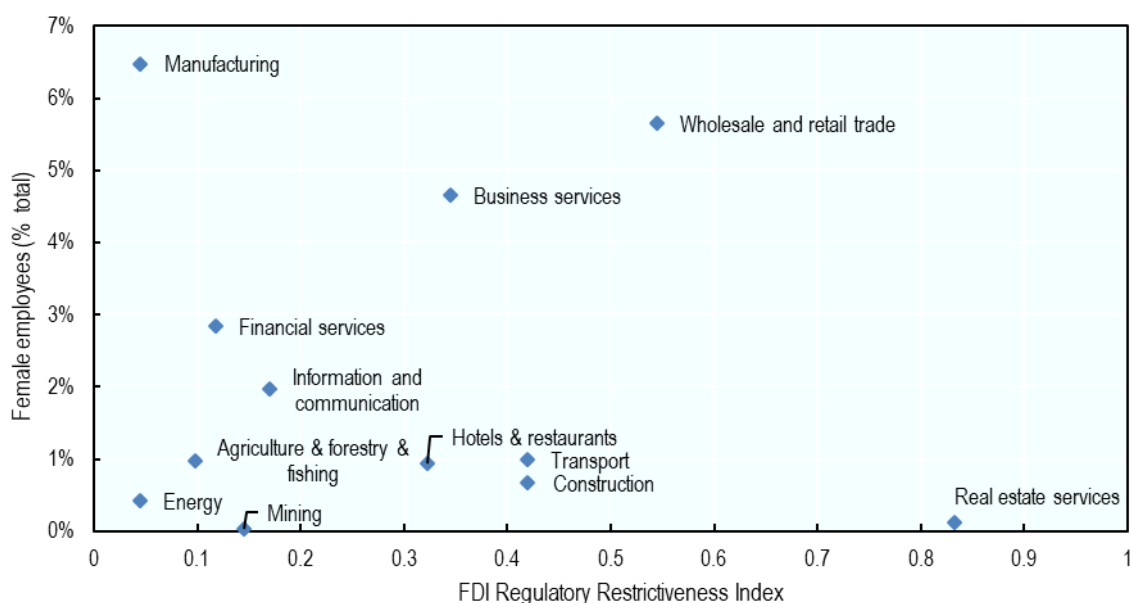
This section analyses the policy framework that supports positive gender impacts of FDI. It examines regulatory restrictions on FDI, legal barriers to women's economic participation, proactive policies and

programmes at the intersection of investment promotion and gender equality and Jordan's main international commitments in the field of women's rights.

4.5.1. Restrictions on FDI and foreign personnel affect some services sectors that are major employers of women

Regulatory restrictions on FDI can undermine the positive impact that FDI can have on gender equality and women's empowerment in the labour market, particularly in sectors that employ, or have the potential to employ, many women. Overall, Jordan has rather high FDI restrictions compared to the OECD average and other peers in the region such as Tunisia, Morocco and Egypt. Jordan's score stems mainly from equity constraints in typically male-dominated services sectors such as real estate services, transport, wholesale and retail trade, construction and business services (Figure 4.11). While these sectors employ predominantly men, they account for 12% of total female employment, corresponding to more than 31 000 jobs. Other service sectors, particularly hotels and restaurants, and financial services also have higher levels of FDI restrictions than the OECD average. As these service sectors tend to employ many women globally, these scores suggest that by lifting FDI restrictions foreign investors may generate jobs that could be filled by women.

Figure 4.11. FDI regulatory restrictions are higher in typically male-dominated sectors



Note: Data refer to 2019. The OECD FDI Regulatory Restrictiveness Index ranges from 0 (open) to 1 (close). It does not cover the education and health sectors. For the methodology to calculate the FDI index, see Kalinova et al. (2010[35]).

Source: OECD elaboration based on ILO and the OECD FDI Regulatory Restrictiveness Index.

Although the FDI index does not cover the education and health sectors, which together account for 55% of female employment in Jordan, some restrictions, particularly on foreign personnel, also affect these sectors and, while not discriminatory, are particularly burdensome for foreign investors. Restrictions on foreign workers apply to all sectors of the economy in Jordan. According to the Labour Law No. 8 of 1996 ("Labour Law"), foreign workers cannot be employed without the prior approval of the MoL and the duration of the work permit cannot exceed one year. The Labour Law also states that foreign employees must have qualifications not available in Jordan and that priority should be given to Arab citizens. The Jordanian nationality requirement for key personnel in certain sectors has recently been relaxed. From 2019,

employers can hire non-Jordanians in a number of high-skilled occupations, particularly in the ICT, energy, engineering, professional services and banking sectors. However, employers must demonstrate that no qualified Jordanian workers are available for the position before hiring a foreign worker. Moreover, work permits for these categories of workers carry higher fees than normal work permits and are not renewable (Chapter 3).

Restrictions on foreign personnel are also a significant obstacle to the employment of immigrant women, particularly Syrian refugee women. An Investment Motivation Survey conducted in Jordan by the World Bank (2016^[35]) in collaboration with the Jordan Investment Commission reveals that foreign investors, especially those driven by efficiency-seeking motivations, in low-value-added manufacturing sectors (e.g. paper, furniture, electronics) would be willing to hire Syrian refugee women if a work permit was granted to them. Since 2015, however, several policy measures have been taken to facilitate access to the labour market for Syrian refugee women through the issuance of work permits and, as a result, the share of Syrian women who have found work in both domestic and foreign firms has increased (ILO, 2017^[36]).

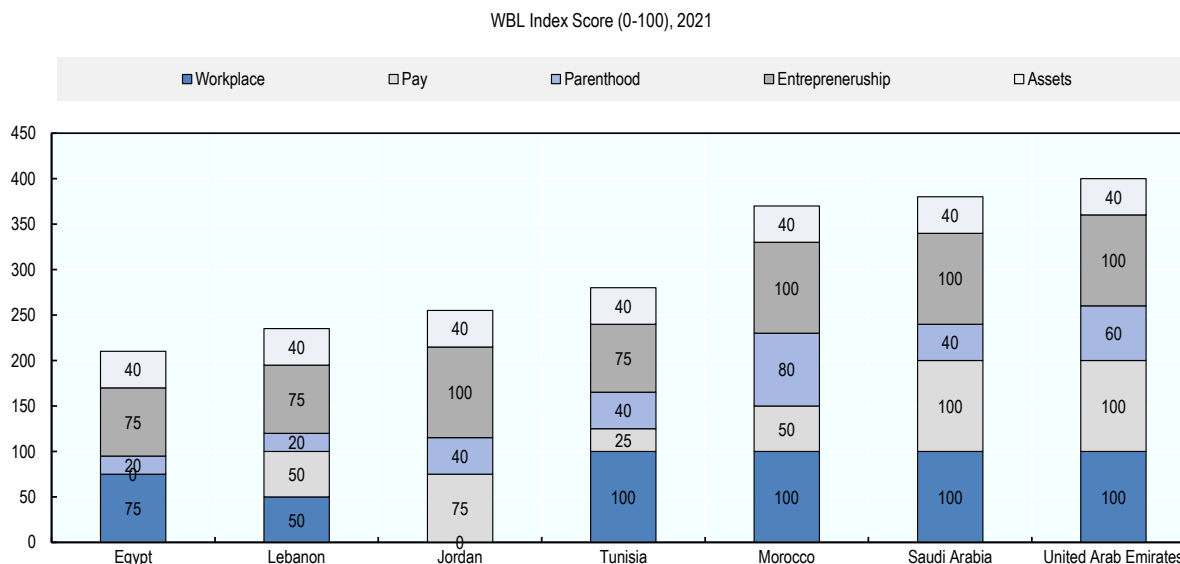
4.5.2. Legal barriers in several areas hinder women's participation in the labour market

Domestic labour market laws and regulations play an important role in facilitating positive impacts and minimising possible negative effects of FDI on local women workers. These laws and regulations, or the lack of them, affect women's ability to enter the market, their working conditions, the possibility to reconcile personal and professional life and to make a career, to open and run a business. The World Bank's Women, Business and the Law (2021^[37]) measures the legal differences between women's and men's access to economic opportunities through several indicators, some of which relate to women's participation in the labour market. The indicators, which take a lower value in the case of greater restrictions, show that in Jordan legal barriers hinder women's ability to enter and remain in the labour force ("workplace"), to have adequate social protection in case of maternity ("parenthood"), and to inherit assets ("assets") (Figure 4.12). The indicators also show that, compared to other countries in the region, Jordan has a less gender-inclusive legal and regulatory framework, especially in the areas of 'workplace' and 'parenthood'.

In the last decade, Jordan has made important progress removing legal barriers to women's participation in the labour market. Recent amendments to the Jordanian Labour Law No. 8 of 1996 ("Labour Law"), introduced by Law No. 14 of 2019 ("Amended Law"), have addressed some important gaps with respect to gender equality in the labour market. The Amended Law introduced the concept of 'wage discrimination' (Article 2), defined as inequality in the payment of wages between employees on the basis of gender, and imposes a penalty on the employer in case of discrimination (Article 17). The Amended Law also introduces a three-day paid paternity leave after the birth of a child (Article 66). Another important amendment concerns Article 72 of the Labour Law, which imposes an obligation on the employer to establish a day care facility when there are 15 or more children under five years of age among both male and female employees (whereas previously the obligation existed only in the case of female employees).

Figure 4.12. Jordan has more legal restrictions on female employment than other regional peers

WBL index scores (0-100) in five selected areas of women's economic inclusion, 2021



Note: The 'workplace' indicator examines legal constraints on women's decision to join and remain in the labour force as well as protections against discrimination and sexual harassment in the workplace; the 'pay' indicator looks at laws and regulations that influence occupational segregation and the gender wage gap; the 'parenthood' indicator assesses laws that influence women's work after having children; the 'entrepreneurship' indicator analyses constraints on women's ability to start and run businesses; finally the 'assets' indicator looks at gender differences in property and inheritance rights. A score below 100 indicates that at least one legal constraint on women's economic participation into a specific area has been identified.

Source: OECD elaboration based on World Bank (2021^[37]), Women, Business and the Law, <https://wbl.worldbank.org/en/wbl>.

In addition to these amendments to the Labour Law, Jordan has adopted a number of laws and regulations to encourage women's participation in the workforce. In 2010, Jordan adopted a new Social Security Law (No. 7) with the aim to increase women's labour market participation and social insurance enrolment. As a result of the reform, maternity benefits are fully financed by a gender-neutral increase in contributions, resulting in no economic disincentive for employers to hire women. Decision 2/2018 of the Ministry of Labour has abolished night work and sectoral restrictions for women (Article 69 of the Labour Law, however, states that a ministerial decree may be issued to restrict women's working hours and choice of sectors/industries). Since 2017, women have the right to choose, with the consent of the employer, a flexible working arrangement adapted to personal and family circumstances (Regulation No. 22 of 2017). In addition, Jordan has introduced provisions prohibiting gender discrimination in financial services (Instructions of the Central Bank of Jordan No. 56/2012, amended by Circular No. 27 January 10091, Article 30).

Nevertheless, major legal barriers to women's participation in the labour market persist. Article 61 of the Personal Status Act (2010) states that women need their husband's consent to work outside the home. Jordanian women are only entitled to 10 weeks of paid maternity leave (12.8 weeks in the public sector), which is less than the ILO's recommended duration of 14 weeks (Labour Law, Art. 70). Furthermore, the current laws are insufficient to effectively address sexual harassment in the workplace, as they do not cover all forms of abuse (e.g. sexual abuse perpetrated by a co-worker) (World Bank, 2020^[38]). The legal framework on inheritance remains discriminatory against women, penalising their ability to inherit productive and financial assets, and potentially limiting their capacity to become entrepreneurs.

4.5.3. Diverse programmes support the positive contribution of FDI to gender equality

In addition to regulations and laws, a variety of other policy instruments can be used to support a positive contribution of FDI to gender equality. These include financial support measures (e.g. tax and financial incentives), technical support programmes (e.g. training and skills development programmes), information and facilitation services (e.g. employment information programmes, childcare facilities). Some of these policy instruments directly leverage FDI, while others aim to improve gender equality more broadly.

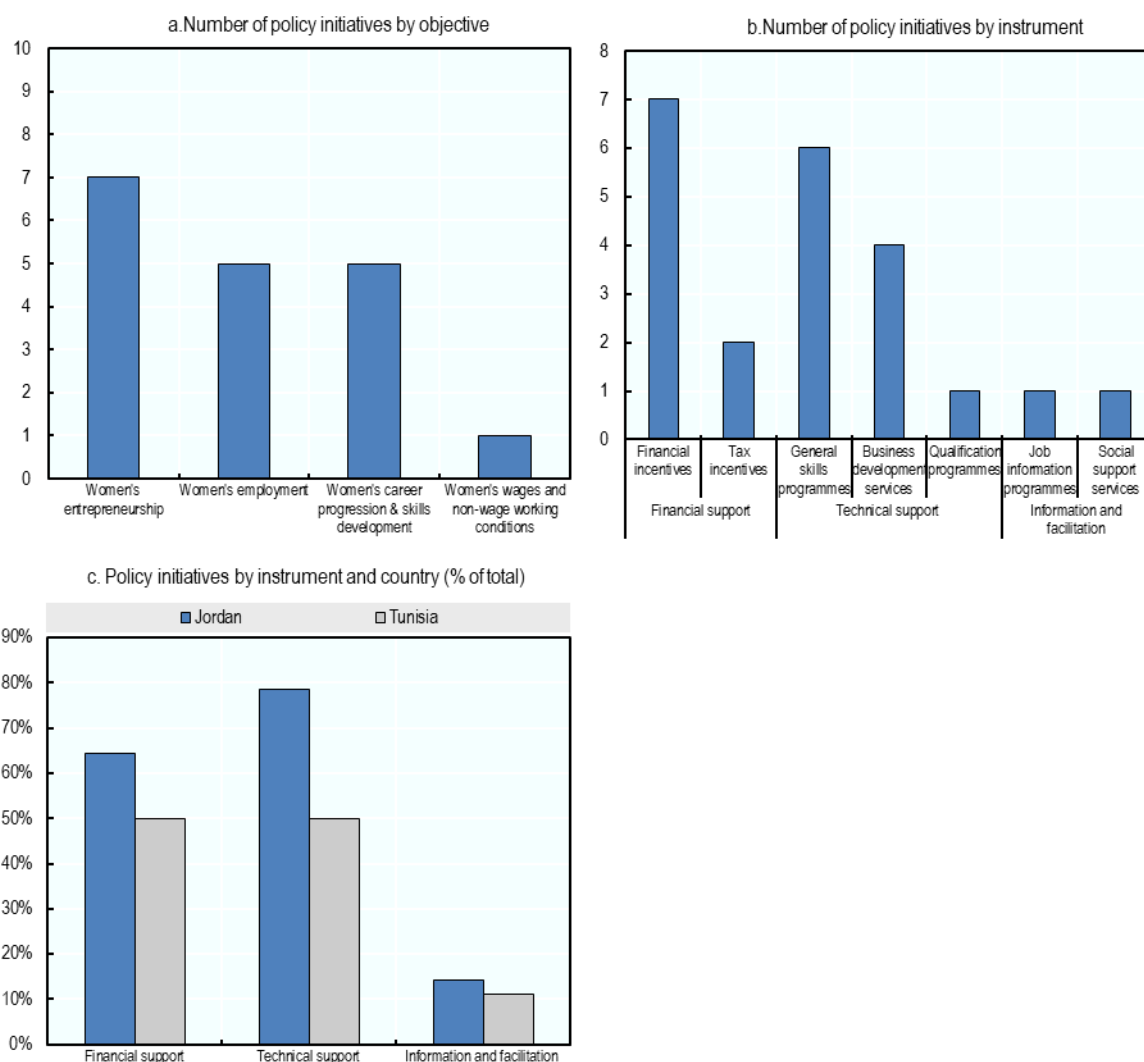
An OECD mapping exercise conducted in the first half of 2021 identified 14 policy initiatives that support the positive impact of FDI on gender equality in Jordan's labour market (Annex 4.A). Some of these policy initiatives promote more than one gender equality objective and may comprise several policy instruments. The data collected through the mapping exercise show that half of these policy initiatives promote women's entrepreneurship, while about one-third aim to increase women's employment and improve women's opportunities for career advancement and skills development (Figure 4.13, Panel A). Only one policy initiative focuses on women's wage and non-wage working conditions.

Financial incentives are the most widely used policy instrument support gender equality and women's empowerment in Jordan (panel b). Notably, half of all policy initiatives include some type of financial incentive. Financial incentives are mainly provided in the form of grants and loans to women-owned businesses. Examples are the loans to small women farmers provided by the Jordan Enterprise Development Corporation and the loans to low-income women provided by the Employment and Development Fund.

Jordan is one of the few countries to grant tax incentives to companies that support gender equality. Specifically, Regulation No. 18 of 2020 stipulates that a company can obtain a reduction in corporate income tax if it employs a share of Jordanian women and workers with disabilities of no less than 15% of the workforce (no less than 25% for textile and garment companies located in QIZs). Moreover, various tax incentives (e.g. tax exemptions, corporate tax reductions) are granted to investors in QIZs where many women are employed.

General skills programmes are the most commonly used policy instrument after financial incentives. Examples include the Productivity Production Centres programmes launched by the Royal Scientific Society and the Ministry of Planning and International Co-operation, which provide training and skills development programmes for low-income women, or the Human Resources for Health programme of the Ministry of Health, which aims to develop the management and leadership skills of women in the health sector. General skills programmes are sometimes combined with other policy instruments. For example, the Development and Employment Fund provides training for women entrepreneurs together with financial assistance. Noteworthy is the Workforce Development (WFD) project of the US Agency for International Development (USAID), implemented through the Ministry of Labour (MoL), which supports the development of certification and accreditation centres to increase employment in the private sector, especially of women.

Figure 4.13. Policy initiatives vary in terms of policy objective and instrument



Note: A policy initiative can support more than one objective and can include more than one instrument. Jordan has 14 policies and programmes to support positive impacts of FDI on gender equality and women's empowerment in the labour market, while Tunisia has 18.

Source: OECD elaboration based on (OECD, 2021^[39])

Business development services are also a widely used tool. These are an important component of several support programmes for women entrepreneurs. For example, JEDC's programme for small farms with a focus on women provides technical assistance to new women entrepreneurs. Women's Economic Empowerment Units (WEE) within local municipalities, established in 2020 by the Arab Women Enterprise Fund, aim to improve women entrepreneurs' access to local services, licences and permits. None of these initiatives explicitly seek to link women entrepreneurs to foreign enterprises, as is the case in other countries (Box 4.3).

Information and facilitation services are less frequently used. These include job information programmes for women, such as those offered in the context of the USAID's Workforce Development Project, and a programme to increase the supply of childcare facilities within private sector companies promoted by the Ministry of Labour.

Box 4.3. Programmes to link women entrepreneurs with foreign MNEs: Experiences from Canada, Rwanda and Morocco

Connecting women entrepreneurs to foreign multinationals, thus creating links for women in the global supply chain and increasing their capacity as suppliers, is another crucial policy approach taken by governments. Some notable examples are Supplier Diversity Canada and programmes implemented with the support of SheTrades Global in Rwanda and Morocco.

Supplier Diversity Canada is an initiative funded by Women and Gender Equality Canada, which aims to advance business diversity and inclusion in Canada by bringing women-owned, aboriginal-owned, minority-owned and LGB-owned businesses into corporate supply chains and government contracts. The initiative includes training procurement professionals on the advantages and tools available to broaden their supplier network and connecting diversity suppliers with procurement opportunities. Numerous MNEs have engaged in supplier diversity programmes, including Marriott, Sodexo, IBM, Dell, and several others.

SheTrades Global is a programme of the Centre for International Trade that helps women-owned businesses expand their network, learn new skills and connect with business partners and investors. With the support of SheTrades Global, Rwanda and Morocco have developed similar programmes. In Rwanda, where 98% of women-owned businesses are small or micro enterprises, these programmes focus on connecting different female suppliers with local and regional supply chains. The programme is especially adapted to the horticulture and coffee sectors, where women business owners dominate. In Morocco, the programme is geared more towards women in the agri-food sector, with an international focus on linking Moroccan suppliers with potential buyers in both Canada and Europe.

Comparing the data collected in Jordan with Tunisia, one of the countries in the MENA region that has made the most progress in terms of gender equality, shows similar results in terms of both the number and types of policies and programmes in place. In the first half of 2021, Tunisia had 17 proactive policies and programmes. Most of these policies and programmes aim to improve women's entrepreneurship (65%). Improving women's skills and increasing women's employment are also policy objectives pursued by many policies (40% and 25%, respectively). Similarities with Jordan are also observed in terms of the policy instruments used (panel c). Just over 50% of the policy initiatives include financial or fiscal incentives for investment (more than 60% in Jordan) and provide technical support measure, particularly training and skills development programmes (nearly 80% in Jordan), and about 10% include information and facilitation services (about 15% in Jordan). However, the lack of more detailed information on these initiatives, for example on the budget allocated, number of beneficiaries, and so on, does not allow for a more accurate analysis between the two policy approaches and their impacts on gender outcomes.

4.5.4. Jordan has actively engaged in international agreements on gender equality

Jordan has ratified the main international agreements promoting women's rights, committing to harmonise national legislation with the principles and standards promoted by these agreements. In particular, Jordan ratified the Convention on the Elimination of Discrimination against Women (CEDAW) in 1992, albeit with reservations on a number of articles (Article 9 (2) on women granting Jordanian nationality to their children, Article 15 (4) on rights of movement and choice of residence, which was revoked in 2009, and Article 16 (1) (c,d,g) on equality in all matters relating to marriage and family relations). Moreover, the country has not yet ratified the Optional Protocol to the CEDAW Convention, thus denying women and NGOs the possibility to submit individual complaints to the CEDAW Committee on violations against women who have not received fair treatment by Jordanian courts.

Jordan has signed the 1995 Beijing Declaration and Platform for Action, which is considered the most important blueprint for the promotion of women's rights. It was also among the first Arab countries to engage with the Millennium Development Goals and committed to the 2030 Agenda in 2015. Jordan has ratified important ILO conventions on gender issues, such as the Discrimination (Employment and Occupation) Convention (No. 111) and the Equal Remuneration Convention (No. 100). However, Jordan has not ratified the Convention on Workers with Family Responsibilities (No. 156) and the Maternity Protection Convention (No. 183). In 2013, Jordan adhered to the OECD Guidelines for Multinational Enterprises, pledging to encourage the positive contribution of multinational enterprises to social progress, including gender equality. This commitment has led to the establishment of a National Contact Point (NCP), which is responsible for promoting and ensuring adherence to the OECD guidelines (Box 4.4). So far, however, the NCP has remained largely inactive.

Box 4.4. Principles on gender equality and non-discrimination in the OECD Guidelines

The OECD Guidelines for Multinational Enterprise (OECD, 2010^[40]) are a key international instrument for promoting RBC practices by foreign MNEs, including in relation to gender issues. The Guidelines are recommendations made by governments to MNEs to prevent and address the negative impacts of business operations on the economy, society and the environment. Although they are not legally binding on companies, they are binding on signatory governments, which are required to ensure that the guidelines are implemented and observed.

While gender issues concern all aspects of business activity, two chapters of the guidelines are more closely related to women: Chapter IV on 'Human Rights' and Chapter V on "Employment and Industrial Relationships". Commentary 40 of Chapter IV on 'Human Rights' states that enterprises should pay particular attention to the human rights of individuals belonging to vulnerable groups such as women. Chapter V on "Employment and Industrial Relationships" refers to principles of equal treatment in employment and non-discrimination on grounds of sex. Commentary 54 of Chapter V further stresses the importance of equal criteria for selection, pay and promotion and of preventing discrimination or dismissals based on marriage, pregnancy and maternity, whereas Commentary 58 states that equal opportunities should also be ensured in training.

Practical guidance for companies on how to identify and address potential negative impacts on women in their own operations and value chains is further provided in the OECD Due Diligence Guidance for Responsible Business Conduct (OECD, 2018^[41]). The OECD Due Diligence Guidance helps companies to become aware of actual and potential risks in situations where women may be disproportionately impacted, for instance in certain sectors or geographical areas. It also provides guidance on how to ensure that actions taken to prevent and mitigate negative impacts are effective and appropriate.

In addition to the OECD's general guidance on due diligence, other OECD sectoral guidance instruments help companies operating in specific sectors to identify how their actions may disproportionately affect women. For example, the OECD Due Diligence Guidance for "Responsible Supply Chains in the Apparel and Footwear Sector" explains how companies along these value chains can identify and address gender-specific risks, such as sexual harassment and discrimination.

Jordan has signed several bilateral trade and co-operation agreements that contain gender-related provisions. The EU-Jordan Association Agreement, which was signed in 1997 and entered into force in 2002, contains a gender provision on social co-operation (Article 82 of Chapter 2). This provision points to "the promotion of the role of women in social and economic development through education and the media, in line with Jordanian policy in this area" as a priority action to consolidate social co-operation between the parties. Since January 2021, a similar provision also applies to the UK-Jordan Free Trade Agreement. As

with most provisions in co-operation chapters, however, the enforceability of these non-economic commitments is rather weak.

The Canada-Jordan Labour Co-operation Agreement, which was signed in 2009 and entered into force in 2012 along with a Free Trade Agreement (FTA), contains several references to gender equality and gender issues. The agreement says that each party must ensure that its labour law and practices incorporate and protect internationally recognised labour principles and rights, including “the elimination of discrimination in respect of employment and occupation (including equal pay for women and men)” (Article 1). In addition, “gender issues, including the elimination of discrimination in respect of employment and occupation” is identified as an area for co-operation to improve labour principles and standards (Article 1 of the Annex, as referred to in Article 8). With regard to the application and enforcement of these provisions, the agreement provides for a binding state-to-state dispute settlement procedure to resolve non-compliance that may result in binding ‘monetary assessments’ enforceable in national courts (Articles 11-13). While the enforcement procedure seems to be sound, in practice the application of this type of clause is extremely rare. Moreover, the agreement does not provide any remedy or procedure for those who are not party to the treaty (e.g. aggrieved citizens) who might suffer most from any breach.

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Annex 4.A. Proactive policies and programmes

Annex Table 4.A.1. Proactive policies and programmes related to FDI and gender mainstreaming

Name of the policy initiative	Implementing institution	Duration	Description
Programmes for small farmers with focus on youth and women	Jordan Enterprise Development Corporation	2015-18	It provides technical and financial assistance to small farmers, farmers' associations and producers and exporters of agricultural crops and SMEs. The programme has a special focus on women and youth.
Development and Employment Fund		Since 1991	It offers subsidised loans, training and skills development programmes and helps new entrepreneurs to develop business projects. It focuses on low-income or unemployed individuals, including many women.
Loan to Microfund for Women (by EIB) to increase financial inclusion of women entrepreneurs	Microfund for Women	2014, 2018	The EIB provided two loans totalling USD 7m to MFW to increase access to finance for micro-enterprises, particularly women entrepreneurs, including Syrian refugee women, in urban and rural areas of Jordan.
Loan to Tamweelcom (by IFC) to support women entrepreneurs	Tamweelcom	2018	IFC provided a USD 10 million loan in local currency to Tamweelcom to support smaller businesses and entrepreneurs, including women.
Financial Inclusion Policies in Jordan	The Central Bank of Jordan	2017	The World Bank has given a grant to the Central Bank of Jordan to promote financial inclusion policies in the country, which will enable women to have easier access to financial services.
Tax Incentives in Development Zones and Free Zones that employ many women (Investment Law N. 30 of 2014)	Jordan Investment Commission	Since 2014	Jordan has established several free and development zones, and a special economic zone in Aqaba. In these zones, investors are granted significant tax incentives, which vary depending on the business sector. Some of these zones employ many women, especially Syrian women refugees
Tax incentives for firms hiring Jordanian women (Regulation N. 18 of 2020)		Since 2020	In some sectors, companies can obtain a reduction in corporate income tax if their share of Jordanian women and workers with disabilities is at least 15% of the total workforce, with the exception of companies in the textile and clothing sector located in QIZ, for which the share must not be less than 25%.
Vocational Training Center – Jabal Al Taj	Jordan Forum for Business and Professional Women (JFBPW)	Since 2003	The Jabal Al Taj centre provides women with vocational and soft skills training to enable them to enter the workforce or establish their own businesses. The centre currently provides training in computer skills; workshops on entrepreneurship and starting a business; incubation of small-scale projects; and other courses (e.g. fashion design courses).
Human Resources for Health Activity (HRH 2030) programme	Ministry of Health	2016-18	HRH2030 is a two-year course to develop the health management and leadership skills of health professionals. More than 40% of the 62 participants in the training are women representing each of the country's governorates.
Productivity Promotion Centers Program (IRADA)	Royal Scientific Society, Ministry of Planning and International Co-operation (MoPIC)	Since 2002	The Productivity Production Centers programme aims to reduce poverty and unemployment by encouraging the economic inclusion of workers on the margins of production, such as women. Productivity Production Centers are located in all provinces of Jordan. They provide training and skills development programmes, including for entrepreneurs, as well as technical advice.
Workforce Development (WFD) Project (USAID-DAI)	Ministry of Labour (MOL)	2014-18	USIAD's programme implemented through DAI aims to increase employment in the private sector, especially for women, youth and those living below the poverty line. Activities include pilot vocational training centres,

Name of the policy initiative	Implementing institution	Duration	Description
			development of certification/accreditation of targeted technical and vocational occupations; support for public-private partnerships for job placement; implementation of a career guidance system for vocational training students; and other information and facilitation services.
Women's Economic Empowerment (WEE) Units	Local municipalities Arab Women Enterprise Fund (AWEF)	Since 2020	The Arab Women's Enterprise Fund has led the establishment of Women's Economic Empowerment Units (WEE) within local municipalities, which aim to improve women's access to local services, licences and permits for their businesses.
Promoting Financial Inclusion Policies in Jordan (by the WB)	Central Bank of Jordan (CBJ)	2017	The World Bank has given a grant to the Central Bank of Jordan to promote financial inclusion policies in the country, which will enable women to have easier access to financial services.
Programme to establish day care centres in private sector companies	Ministry of Labour (MOL)	2015-20	The aim of the programme is to establish day care centres in private sector companies. A further objective is to improve compliance with Article 72 of the Jordanian Labour Law, which requires employers to establish a day-care centre when there are 15 or more children under five years of age among male and female employees. The programme includes the following activities: awareness-raising and inspection campaigns on Article 72 by the Ministry of Labour; technical and financial assistance to companies to establish day-care centres; training in early childhood care skills; subsidising female employment in day-care centres.
Cash benefits for childcare services (Regulation No. 93 of 2020)		2014	The new regulation, issued under the Social Security Law No. (1) of 2014, provides working mothers with cash benefits, to enable them to return to work while securing childcare for their children either at a childcare facility or at home. It also allows registered childcare centres to receive direct cash benefits to cover operational costs.

5 Improving FDI impacts on carbon emissions

This chapter discusses Jordan’s key challenges related to energy security and resulting implications for carbon emissions and private investment. It assesses the current contribution of FDI to diversifying energy sources, reducing carbon emissions and supporting the low-carbon transition, including through potential spillovers to domestic firms. It then considers the institutional and policy frameworks that influence the impact of FDI on carbon emissions, and identifies policy opportunities for improving these impacts. The chapter applies the forthcoming OECD FDI Qualities Policy Toolkit.

5.1. Summary

Water, food and energy security are among the greatest challenges to achieving sustainable development in Jordan and have serious implications for Jordan's carbon emissions and its ability to meet its climate objectives. Carbon emissions in Jordan continue to rise, albeit at a diminishing rate, driven predominantly by the largely oil-fuelled energy and transport sectors. As the technological barriers to further electrification and decarbonisation of these sectors are falling rapidly, the private sector, and foreign investors specifically, can profitably cater to these investment needs. Over the last decade, foreign investment projects have been negligible in the transport sector, and largely dominated by fossil fuels in the energy sector. More recently, FDI has started to shift away from fossil fuels and into clean energy sources. Accelerating this shift is critical for diversifying energy sources, reducing reliance on fossil fuel imports and improving energy security, and will at the same time help advance Jordan's low-carbon transition.

The low-carbon transition requires greening of investments beyond the energy sector. There is evidence that foreign firms may be responsible for over 50% of oil consumed in manufacturing. Moreover, according to the FDI Qualities Indicators, foreign investors in Jordan underperform in terms of green business practices, particularly when it comes to tracking energy use and emissions, and implementing measures to reduce emissions. This suggests that there may be little scope for positive spillovers from foreign to domestic firms, when it comes to greening business practices and improving the climate impacts of private investment. Even if foreign firms were to outperform domestic firms in terms of climate impacts (which there is currently no evidence of), the opportunities for influencing the business practices of domestic suppliers is somewhat limited, given to the limited extent of local supply chain linkages.

Since 2017, the Government of Jordan has made green growth a top national priority, and demonstrated its commitment to transition towards a green economy through various multi-year strategies and plans, resulting in a series of reforms and proactive policies to support decarbonisation. Two key reforms have been the unbundling of the power sector, which has opened up power generation to private investment, and the phasing out of energy subsidies, which as removed price distortions that resulted in over-investment in carbon intensive activities. While these reforms and programmes can influence the FDI entering the country, greater efforts could be made align the green growth framework with the investment promotion strategy and to clarify the role of private investors in advancing low-carbon targets more explicitly and specifically. This chapter provides an overview of national strategies, institutional arrangements and policies at the intersection of investment and climate policy and evaluates to what extent they are conducive improving the climate impacts of investment. Key policy considerations are summarised below.

Policy considerations

- **Ensure high-level alignment and co-ordination across investment and climate policymakers.** Jordan has made a visible effort to consolidate its many national strategies and action plans relating to climate change into a single cross-sectoral framework for green growth under the oversight of a cross-ministerial steering committee. The steering committee's direct link to the Prime Ministry should ensure alignment with the Investment Council's priorities. Given that renewable energy investments are a key priorities of the Investment Council, there may be scope for involvement within the Investment Council of the Ministry of Energy and Mineral Resources, in order to ensure greater strategic alignment.
- **Align the national green growth framework with the investment promotion strategy and clarify the role of private investors in achieving green growth outcomes.** References to the role of private investment in Jordan's green growth framework are general and rarely linked to specific priority actions outlined by the national plans. Greater efforts could be made to clarify where private investment will be most crucial, and link the identified green growth priority

projects to private investment opportunities identified and promoted by the Ministry of Investment (Mol). An updated investment promotion strategy should ensure that investment opportunities in renewables are considered on a proactive rather than reactive basis by the Mol, in line with the multitude of green growth priority projects designed to accelerate private investment in renewable energy.

- **Streamline and unify licensing and registration procedures for renewable projects under one authority.** Several institutions are involved in the administrative and licensing procedures for renewable-energy investments: the Mol's one-stop shop facilitates licensing procedures for all types of investment; the Mol provides licences to free zone investors, some of which target renewable power generation; however, the main licence that a renewable project developer must obtain is a power-generation licence delivered by the electricity regulator (EMRC). Streamlining and unifying these licensing procedures under one authority can help decrease the transaction costs associated with renewable energy investments.
- **Consider replacing local content requirements on solar and wind components, with targeted incentives for industrial development.** While electricity generation is relatively open to foreign investments, other discriminatory measures persist and may inhibit foreign investments in renewable technologies. The local content requirements on solar photovoltaics and wind turbines are at odds with Jordan's relatively limited manufacturing capacity of related components. Such discriminatory measures are likely to discourage foreign investments in downstream solar and wind power generation. Instead, the government could provide targeted incentives for specific solar and wind components that are not yet manufactured locally.
- **Consider transitioning from a single buyer electricity model to a well-designed wholesale market for electricity.** Competition policy may be especially important for supporting decarbonisation of the power sector. The current single buyer model can limit the penetration of renewable energy in the electricity sector, by reducing the attractiveness of Jordan's electricity market to potential foreign investors. The government should consider enabling the three main electricity distributors to purchase electricity directly from the producers at market prices, in order to level the playing field for foreign investors. Gradually transitioning to a well-designed wholesale market for electricity could further enhance the ability of the power sector to accommodate high shares of renewable energy, and accelerate Jordan's energy transition.
- **Streamline the land acquisition and land lease process.** Accessing land suitable for renewable project development is one of the major challenges faced by investors in renewable power generation. Policymakers could create a database of government lands available for renewable projects, and facilitate land acquisition procedures through a central office to reduce transaction costs for investors. The government could further identify available private lands, and provide lenders with a mechanism to ensure that leases of land with multiple private owners can be efficiently concluded.
- **Link investment promotion efforts to low-carbon objectives.** The role of the Mol in the implementation of policies to promote low-carbon investments remains limited to the provision of information related to investment opportunities in the energy and transport sectors. The Mol could consider further tailoring its investment promotion material and activities to target low-carbon investors, within and beyond these sectors. More emphasis could be given to investment opportunities related to electrification of road transport, and energy saving opportunities in tourism and industry. Given the relatively poor performance of foreign investors in Jordan with respect to green business practices, there may be scope for linking investment promotion efforts to incentives or requirements related to monitoring and reporting of energy use, both to reward energy saving efforts of domestic peers and to reduce the energy intensity of FDI.

5.2. Key challenges and opportunities affecting carbon emissions in Jordan

Water, food and energy security are among the greatest challenges to achieving sustainable development in Jordan and have serious implications for Jordan's carbon emissions and its ability to meet its climate objectives. Water scarcity and high energy costs are also crucial barriers to private sector growth and productivity (see Chapter 2). Jordan is one of the most water scarce countries in the world, and climate change is projected to exacerbate this scarcity. Jordan's geographical conditions are such that high energy inputs are required to filter and transport water over long distances and wide elevational differences. Rising energy costs driven by the increased demands of a larger population have further intensified water scarcity in Jordan in recent years. Agriculture is responsible for 60% of total water use and 14% of electricity use, but provides only 19% of the country's food requirements (EBRD, 2020^[1]).

Jordan's energy sector has also faced significant challenges over the past decade. Generation capacity in Jordan is overwhelmingly fossil-fuelled, but with few fossil-fuel resources of its own, Jordan imports 90% of its energy supply, particularly crude oil and oil products from neighbouring Saudi Arabia and Iraq; natural gas from Iraq, Egypt and Qatar; and electricity from Egypt and Syria (IEA, 2021^[2]). Energy demand grew rapidly over 2012 to 2017 as a result of structural shifts in demand, compounded by the regional refugee crisis, although this trend is showing a reversal since 2018. During the same period, Jordan experienced disruptions in the flow of low-cost pipeline gas from Egypt, forcing the state-owned single wholesale buyer and seller of power, the National Electric Power Company (NEPCO), to import expensive diesel oil products, and to incur significant losses. Subsequent fuel and electricity subsidy reforms greatly alleviated the resulting fiscal pressures.

Thanks to its location, Jordan has a strong potential for the deployment of renewable power technologies, especially in solar and wind energy. In recent years, the Jordanian government succeeded in establishing a transparent and stable regulatory framework for the development of renewable energy and attracting international private capital and expertise. Jordan met its 10% renewable targets for 2020 ahead of schedule and now targets as much as 31% of its electricity generation from renewables by 2030 (Ministry of Environment, 2020^[3]). As the Jordanian energy system transitions to accommodate larger shares of intermittent and decentralised renewable energy, challenges associated with the energy system's increasing complexity are set to grow.

The quality of transport infrastructure is mixed, with major regional disparities. Jordan is one of the countries with the least developed rail infrastructure in the Southern Mediterranean region, and is characterised by high urbanisation and increasing congestion, with road traffic growth outpacing GDP growth. Public transport is dominated by low-capacity vehicles (i.e. taxis), exacerbating congestion, limiting mobility of the poor, and hampering private sector operation and development.

5.3. FDI impacts on carbon emissions

Foreign direct investment (FDI) is an important source of capital and driver of growth in Jordan – the FDI stock-to-GDP ratio exceeded 80% in 2020, which is high relative to other emerging economies (OECD, 2021). Less is known about how FDI affects green growth, and in particular Jordan's climate change mitigation efforts and low-carbon transition. Evidence from other countries suggests that FDI can help diffuse cleaner or energy-saving technologies, and that the share of FDI captured by renewables, for example, has more than doubled relative to FDI in fossil fuels in the last decade in regions across the world (OECD, 2021^[4]). This section examines the impact of FDI on carbon emissions and green growth in Jordan based on the FDI Qualities Policy Toolkit (Box 5.1).

Box 5.1. A conceptual framework to assess FDI impacts on carbon emissions

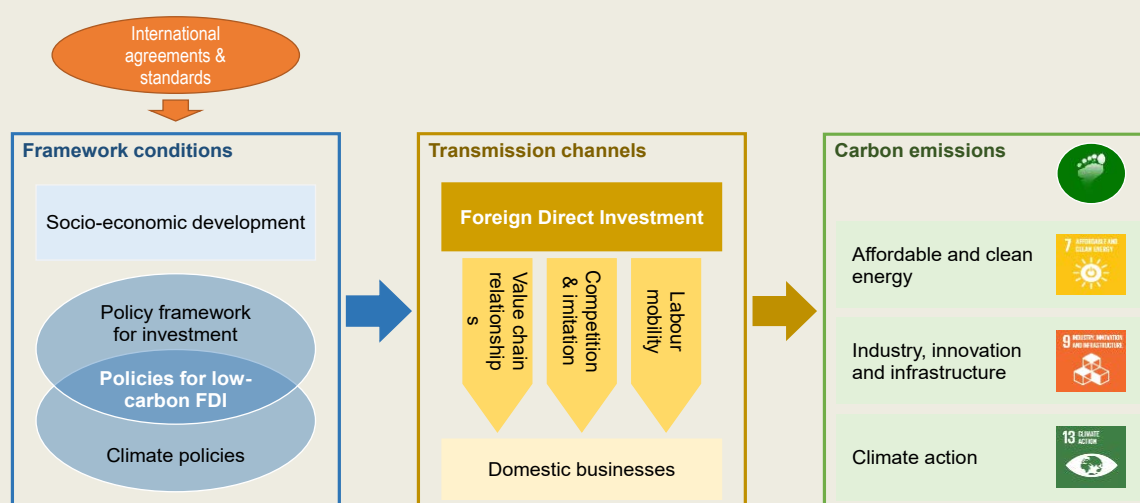
FDI generates emissions from production processes and energy use, as well as all other emissions associated with any intermediate goods, transport of goods to market, emissions in end use and disposal of products produced. These emissions are influenced by investor-specific attributes (e.g. technology, motive). Foreign investors can also generate spillovers arising from (1) their supply chain relationships with domestic firms; (2) market interactions through competition and imitation effects; (3) and labour mobility of workers between foreign and domestic firms.

The premise behind FDI spillovers is that foreign firms have access to superior technology, skills and capital, as a result of their ties to the parent company, and that this advantage can allow knowledge to spill over to domestic firms. This has important implications for the broader uptake of low-carbon technologies in the host country beyond the foreign firm. The spillover potential varies across technology and spillover channel. FDI spillovers on carbon emissions need not be positive, if, for instance, foreign investors are attracted by weaker environmental regulation (i.e. the ‘pollution haven hypothesis’) and they induce a race to the bottom with respect to environmental standards.

The motivation behind the FDI Qualities Policy Toolkit is that, under certain circumstances, FDI can contribute the needed financial and technological resources to advance the low-carbon transition. Resulting benefits for host countries include: improving energy security, diversifying energy sources, reducing reliance on energy imports and electrifying remote rural areas; fostering innovation, creating new industries and jobs related to low-carbon technologies, and gaining an edge over competitors and attendant export opportunities in key industries; and the localised benefits of mitigating climate change, reducing environmental degradation, and improving air quality and associated health impacts.

The extent to which FDI can play a role in de-carbonising economies depends on a number of contextual factors that are the focus of this chapter, including FDI characteristics and spillover potential, market and regulatory environments of home and host countries and the international frameworks that link them. Targeted policy interventions can create incentives for foreign investors to actively contribute to low-carbon objectives, and influence the spillover potential of their investments.

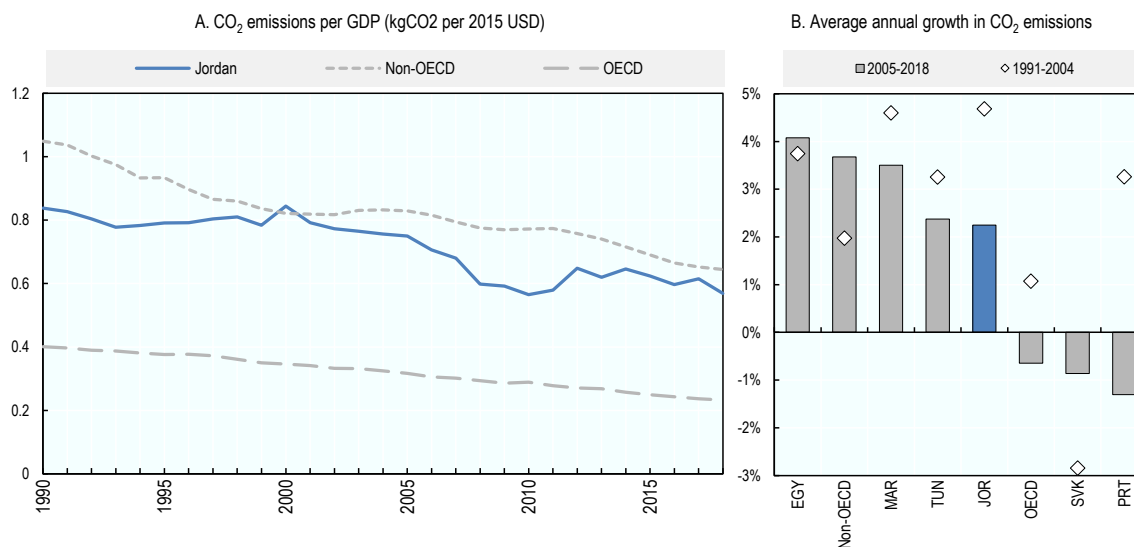
Figure 5.1. Framework for understanding how FDI influences carbon emissions



Source: OECD (2022^[5]), FDI Qualities Policy Toolkit.

Carbon emissions per unit of output declined steadily in Jordan over the last decades at a rate that is similar to OECD countries, on average, while their level remains substantially higher and close to the average for non-OECD countries (Figure 5.2, Panel A). Although the growth rate in emissions has more than halved over the last fifteen years, and is substantially lower than that of the average non-OECD country, in absolute terms, Jordan's carbon emissions continue to rise (Figure 5.2, Panel B). In contrast, emissions generated by OECD countries are declining both in absolute terms and as a share of GDP.

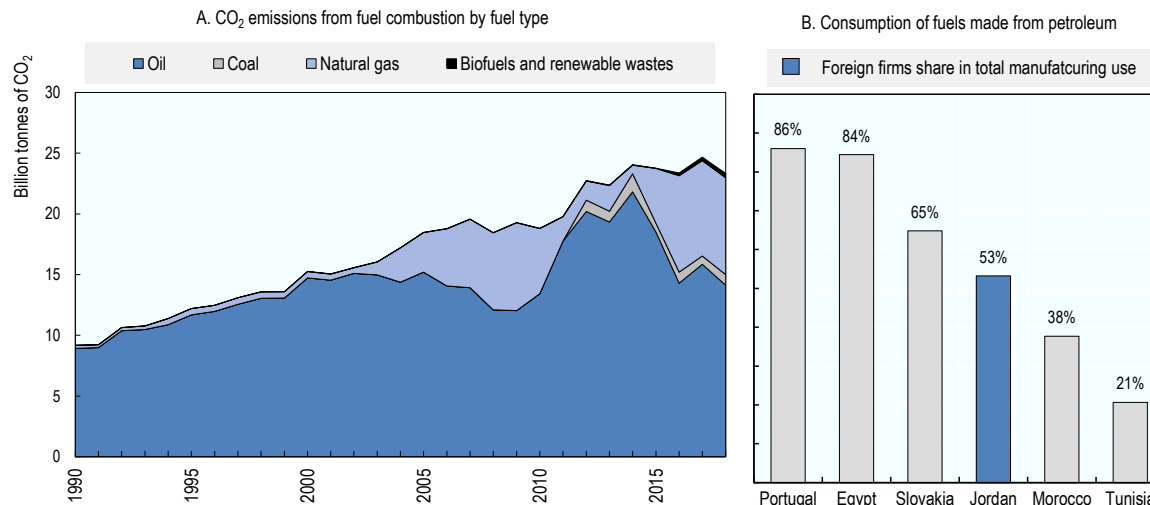
Figure 5.2. Carbon missions per unit of output are steadily declining



Source: OECD based on IEA (2021^[2])

Combustion of oil products is responsible for over 80% of carbon emissions generated in Jordan over the last three decades, followed by natural gas, whose contribution has risen sharply since the early 2000s (Figure 5.3, Panel A). According to estimates based on the latest World Bank Enterprise Surveys, in 2019 foreign firms may have been responsible for over 50% of total consumption of oil-based fuels by manufacturing firms in Jordan (Figure 5.3, Panel B).¹ This share is substantially lower than in Portugal (86%) and Egypt (84%), but still considerable compared to Morocco (38%) and Tunisia (21%). Overall, manufacturing accounts for 14% of oil-based energy consumption according to recent estimates, while transport and households are responsible for the bulk of oil consumption (Ministry of Energy and Mineral Resources, 2018^[6]). Nevertheless, there remains significant potential to reduce FDI's carbon footprint in manufacturing activities, and thereby reduce emissions in general.

Figure 5.3. Foreign firms consume a large share of the oil responsible for emissions



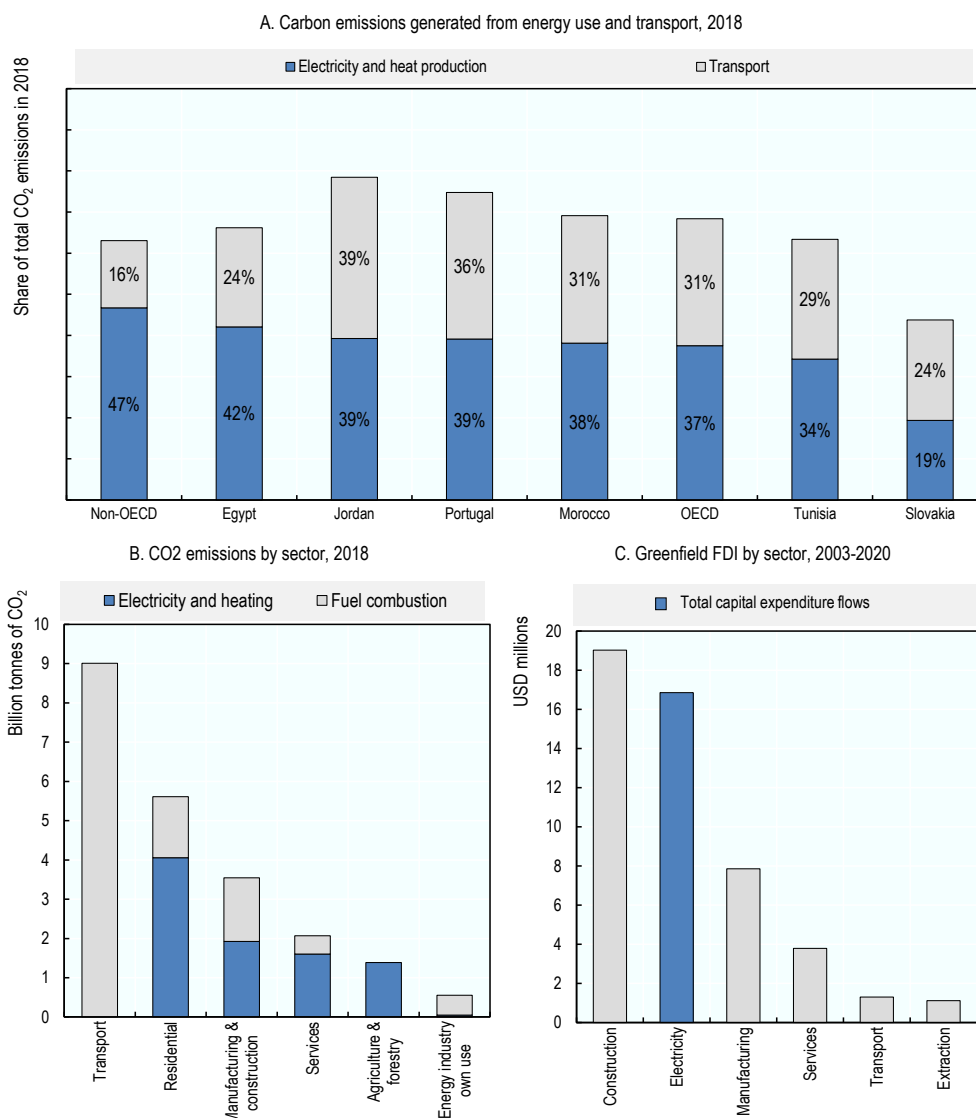
Note: Note that Panel B captures manufacturing firms only.

Source: OECD based on IEA (2021^[2]) and World Bank (2021^[7]).

5.3.1. FDI in renewable energy can significantly accelerate the low-carbon transition

From a sectoral perspective, fuel combustion related to energy and transport accounted for close to 80% of Jordan's carbon emissions in 2018 (Figure 5.4, Panel A). The transport sector's contribution to emissions is the highest across comparator countries, and the energy sector is second only to Egypt. When broken down across consuming industries (Figure 5.4, Panel B), the residential sector accounts for the bulk of emissions from electricity use (45%), followed by roughly similar shares for manufacturing and construction (21%), services (18%), and agriculture and forestry (15%). By comparison, emissions associated with industrial activities and processes that do not originate from electricity use play a relatively minor role. This implies that a combination of increasing reliance on clean energy sources and electrifying the transport sector can result in vast emissions reductions. Given the rapidly declining costs associated with these technologies, the private sector, and foreign investors specifically, can profitably cater to these investment needs. Electricity generation also accounted for a substantial share of foreign greenfield investment flows over 2003 to 2020 (34%), second only to construction (38%) (Figure 5.4, Panel C). Given how polluting the energy sector is, the question of whether foreign investments are exacerbating this trend or supporting a shift to renewables naturally follows.

Figure 5.4. Energy and transport account for the bulk of emissions

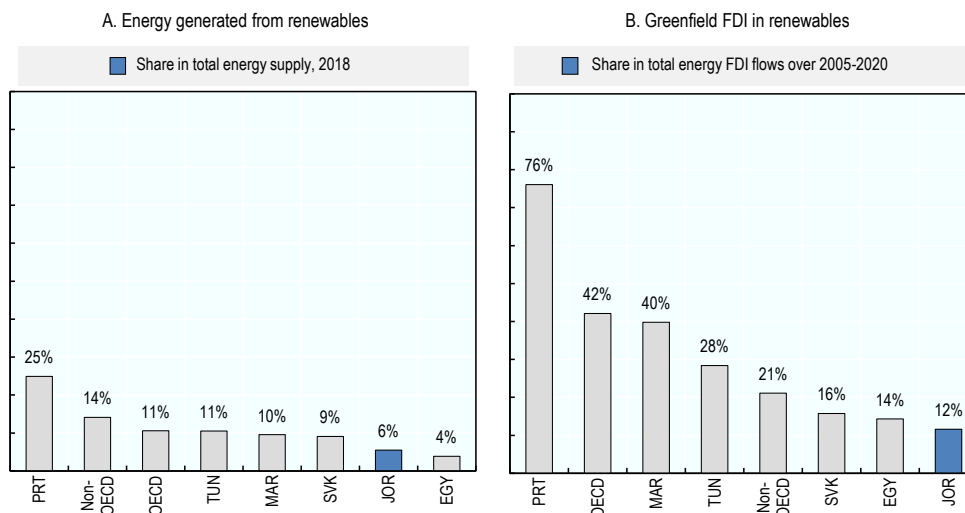


Source: OECD based on IEA (2021^[2]) and Financial Times (2021^[8]).

A closer look at Jordan's energy sector shows that, only 6% of its annual energy supply was generated from renewable sources in 2018, compared to 14% in non-OECD countries, on average, and the second lowest across comparator countries. Studies have shown that multinational investors can play a critical role in diversifying energy sources and deploying renewable energy technologies and infrastructure, particularly in developing countries, thanks to their technological and financial advantages relative to domestic firms (OECD, 2019^[9]). In Jordan, renewables accounted for only 10% of the value of greenfield FDI flows in the energy sector over 2003 to 2018, while fossil fuels and nuclear accounted for 90%. This share is less than half of the share for non-OECD countries on average, and less than a quarter of the share for OECD countries. However, when considering the number of investments, renewable energy accounts for 78% of projects, almost all of which were announced in 2014 or later. In contrast, only one of the 6 greenfield projects in non-renewable power date to after 2016. In other words, although there's still a long way to go, FDI has started to shift away from fossil and into clean energy sources. Accelerating this

shift is critical for diversifying energy sources, reducing reliance on fossil fuel imports and improving energy security, and will at the same time help advance Jordan's low-carbon transition.

Figure 5.5. FDI in renewables is significantly below its potential



Note: Panel B reflects cumulative capital expenditure of announced cross-border greenfield FDI projects.

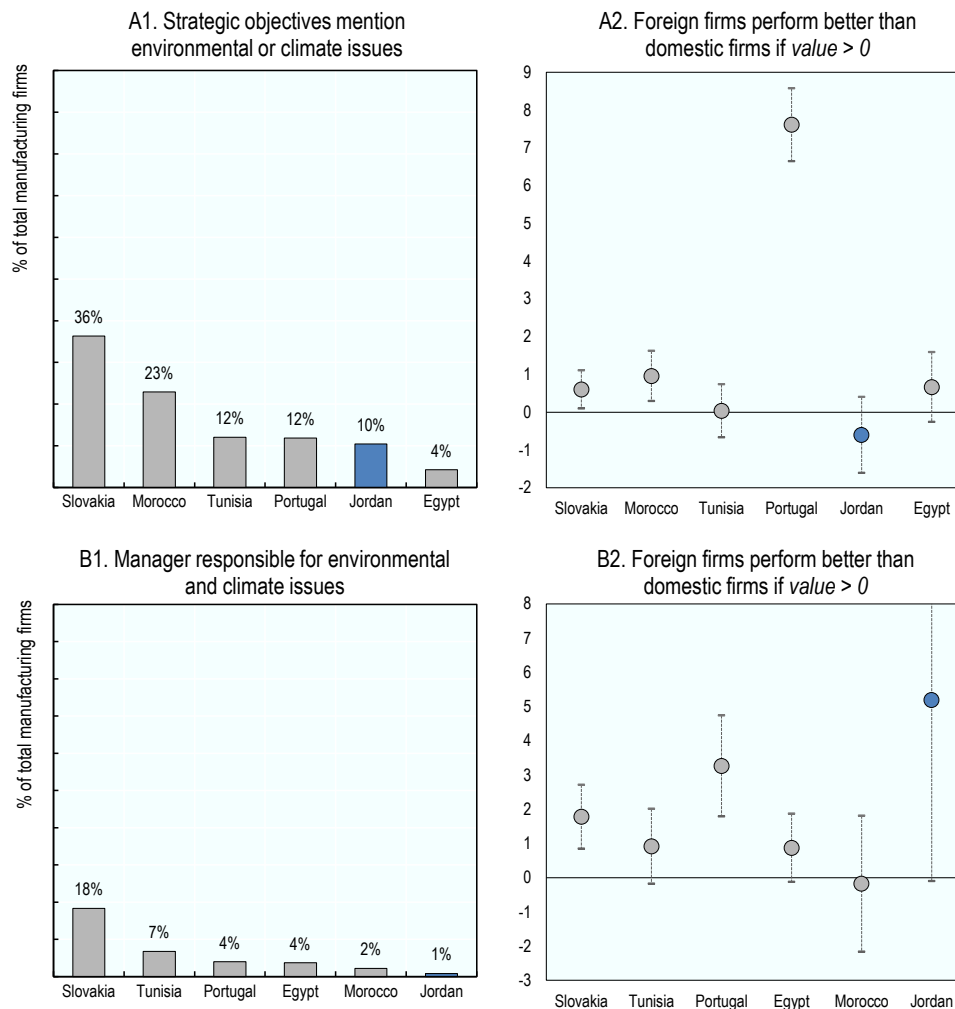
Source: Source: OECD based on IEA (2021^[2]) and Financial Times (2021^[8]).

5.3.2. Foreign investors in Jordan perform poorly in terms of green business practices

The low-carbon transition requires greening of investments beyond the energy sector. In some cases foreign investors support this transition through their relatively more climate-friendly business practices, potentially as a result of more stringent international environmental standards that they are measured against. Conversely, foreign firms can also deteriorate environmental outcomes by outsourcing highly polluting activities to developing countries with less stringent environmental standards. The OECD *FDI Qualities Indicators* can help shed light on the extent of positive or negative contributions of FDI to carbon emissions across several dimensions. In particular, the indicators consider firm practices in terms of (1) environmental strategy and management, (2) monitoring and targeting of energy consumption, (3) and implementation of measures to reduce carbon impacts.

Among the countries considered, a minority of firms incorporate environmental or climate change issues into their strategic objectives, and even fewer employ a manager responsible for environmental and climate change issues (Figure 5.6, Panels A1 and B1). The shares are particularly low for Jordan (10% and 1%, respectively), while Slovakia is the top performing comparator country (36% and 18%, respectively). Moreover, foreign firms in other countries perform at least as well as domestic firms in terms of incorporating environmental strategic objectives, but there is no evidence of this in Jordan (Figure 5.6, Panel A2); and while foreign firms in Jordan are more likely to employ a manager responsible for environmental impacts than their domestic peers, given the low baseline and high variance, this evidence remains somewhat weak (Figure 5.6, Panel B2).

Figure 5.6. Corporate climate strategies and management

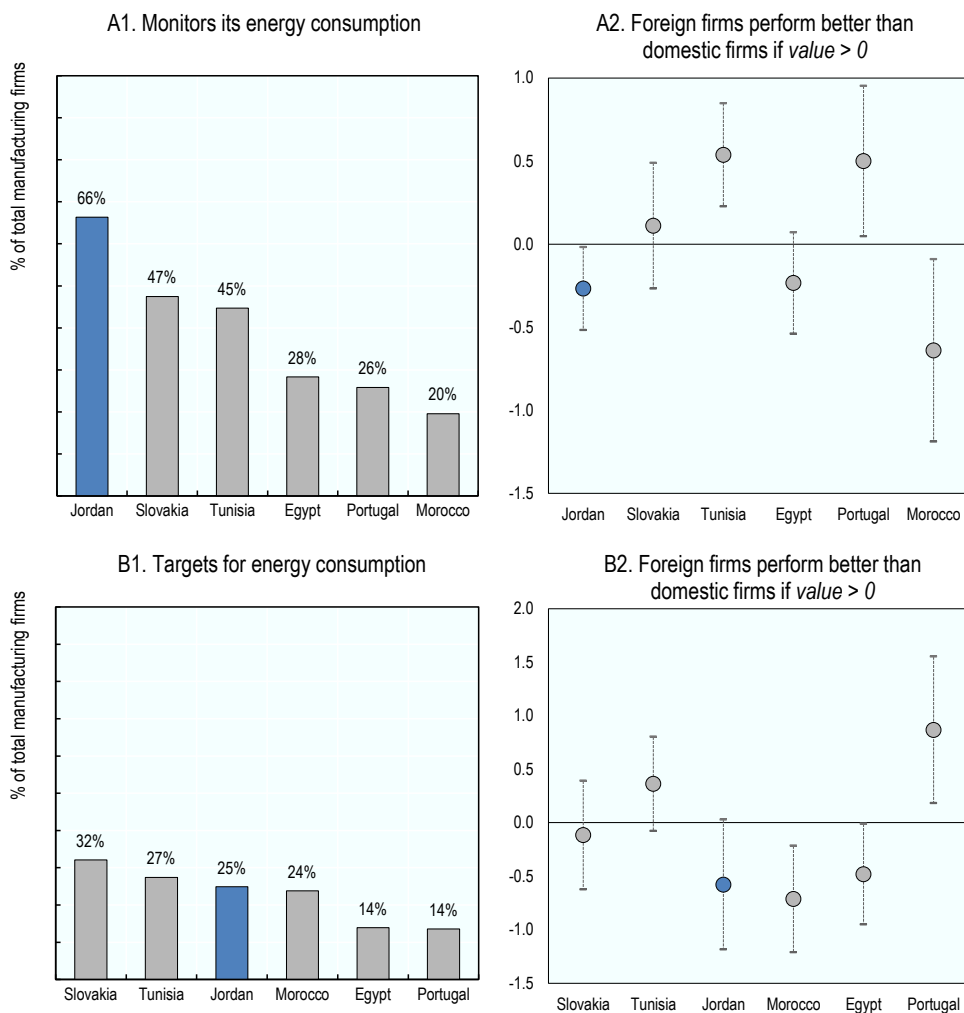


Note: Panels A1 and B1 reflect all firms, while Panels A2 and B2 show the percentage differences across foreign and domestic firms (circle) and the 95% confidence intervals around such differences (line).

Source: OECD based on World Bank (2021^[7]).

Companies in Jordan perform significantly better in terms of tracking their energy consumption, perhaps in response to Jordan's high energy costs and resulting competitiveness implications for manufacturing firms (see Chapter 2). Two thirds of firms report that they monitor energy consumption, the highest share among the countries considered, and a quarter set targets for energy consumption, in line with the other top performers in the group (Figure 1.10, Panels A1 and B1). However, foreign firms in Jordan underperform relative to domestic firms (Figure 1.10, Panels A2 and B2). In other words, they are less likely to set targets for and monitor their energy use, while the opposite is true in Tunisia and Portugal. This is consistent with the evidence of a relatively large contribution of foreign manufacturing firms to oil-based fuel consumption in Jordan (Figure 5.3), and may warrant linking investment promotion efforts to incentives or requirements related to monitoring and reporting of energy use, both to reward energy saving efforts of domestic peers and to reduce the energy intensity of FDI.

Figure 5.7. Tracking energy consumption

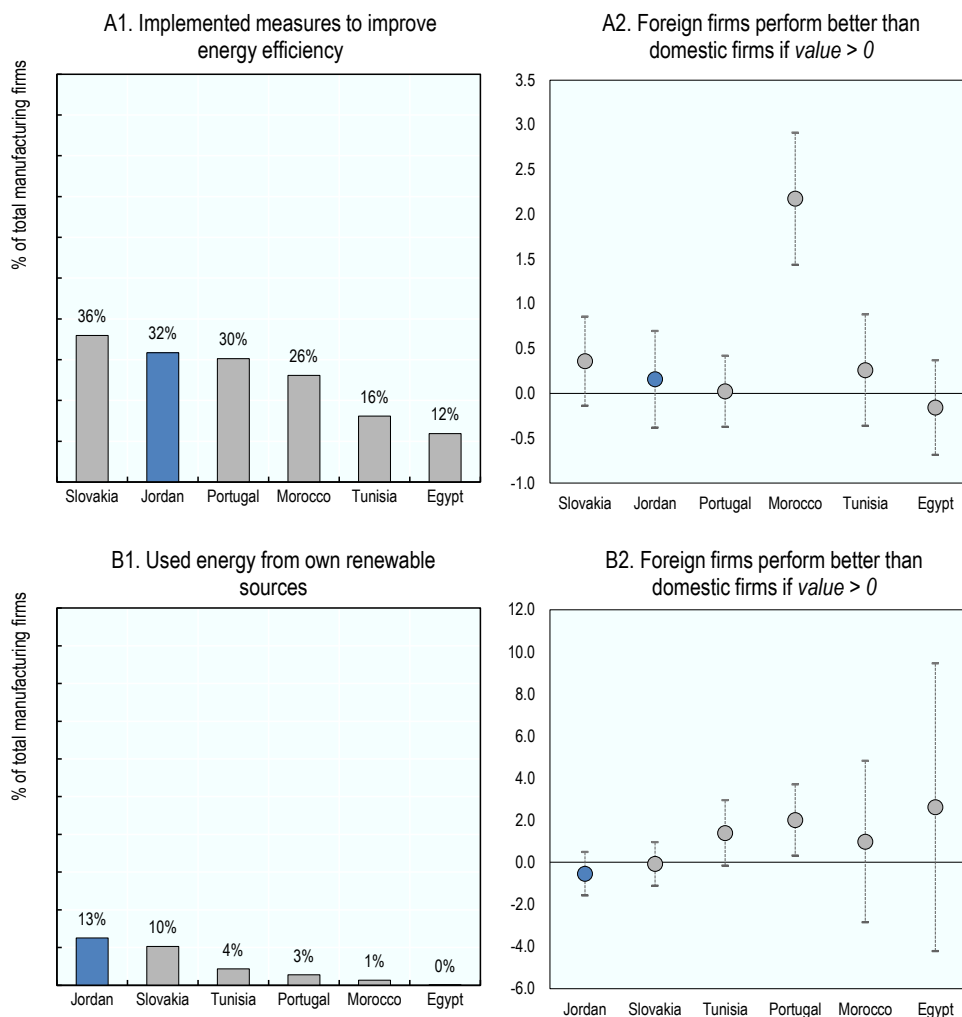


Note: Panels A and C reflect all firms, while Panels B and D show the percentage differences across foreign and domestic firms (circle) and the 95% confidence intervals around such differences (line).

Source: OECD based on World Bank (2021^[7]).

Companies in Jordan perform relatively well also in terms of implementing measures to reduce their emissions (Figure 5.8, Panels A1 and B1). A third of surveyed companies implemented measures to improve energy efficiency over the last three years, second only to Slovakia (36%), and 13% of surveyed companies use energy generated from their own renewable sources, the highest among the group of countries. According to the FDI Qualities Indicators, there is no significant difference across domestic and foreign firms in Jordan in their likelihood of implementing such measures (Figure 5.8, Panels A2 and B2). While this is not a negative result in itself, it suggests that there may be little scope for domestic firms to acquire new knowledge from their foreign counterparts, either through supply chain linkages or through market interactions, when it comes to implementing measures to reduce climate impacts. More generally, there appears to be relatively little potential for FDI-induced spillovers to domestic firms related to greener business practices.

Figure 5.8. Implementation of measures to reduce emissions



Note: Panels A and C reflect all firms, while Panels B and D show the percentage differences across foreign and domestic firms (circle) and the 95% confidence intervals around such differences (line).

Source: OECD based on World Bank (2021^[7]).

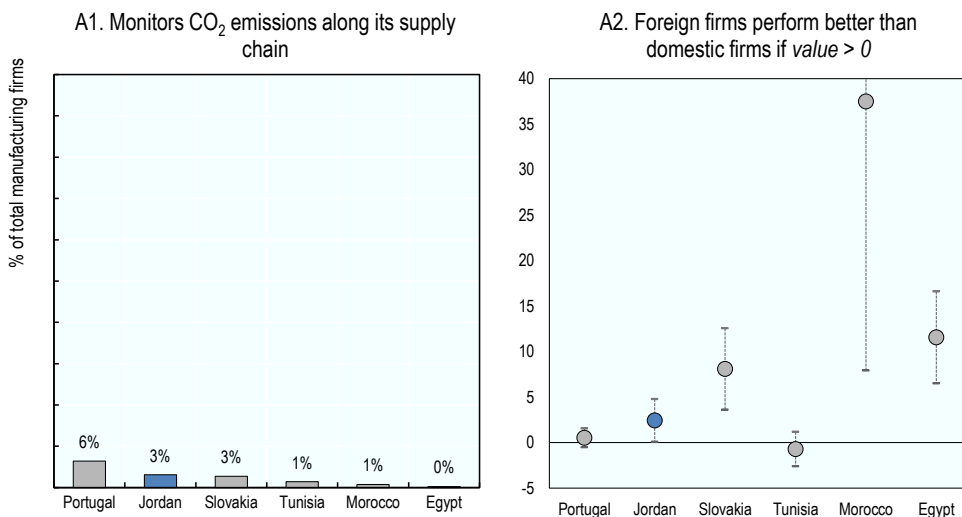
5.3.3. There is limited evidence of FDI spillovers on carbon emissions

A number of factors can help shed further light on the potential for FDI spillovers, positive or negative, related to carbon emissions. One of the most important channels for such spillovers is through supply chain relationships with domestic suppliers, partners and buyers. Foreign firms can for instance influence the practices and resulting emissions of their suppliers by requiring environmental certifications or adherence to certain standards as a precondition for doing business. Foreign firms may also share knowledge and technologies with their suppliers that help reduce carbon emissions associated with their economic activities. Therefore, the existence of such supply chain relationships is a necessary condition for the materialisation of FDI-induced spillovers on emissions.

In Jordan, foreign manufacturing firms buy around a third of their intermediate inputs from local suppliers (see Chapter 2), the second lowest share across the countries considered, and well below the average for non-OECD countries (61%). Thus, even if foreign firms were to outperform domestic firms in terms of

climate impacts (which there is currently no evidence of), the opportunities for influencing the business practices of domestic suppliers is somewhat limited. This evidence is further corroborated by the fact that only 3% of firms in Jordan report that they monitor emissions along their supply chain, a share that is nevertheless in line with other countries considered, and in fact the second highest in the group (Figure 5.9, Panel A). Similarly, few firms in Jordan (11%) report that their customers require environmental certifications or adherence to certain environmental standards as a condition to do business with them, although the share is in line with the other countries considered (Figure 5.10).

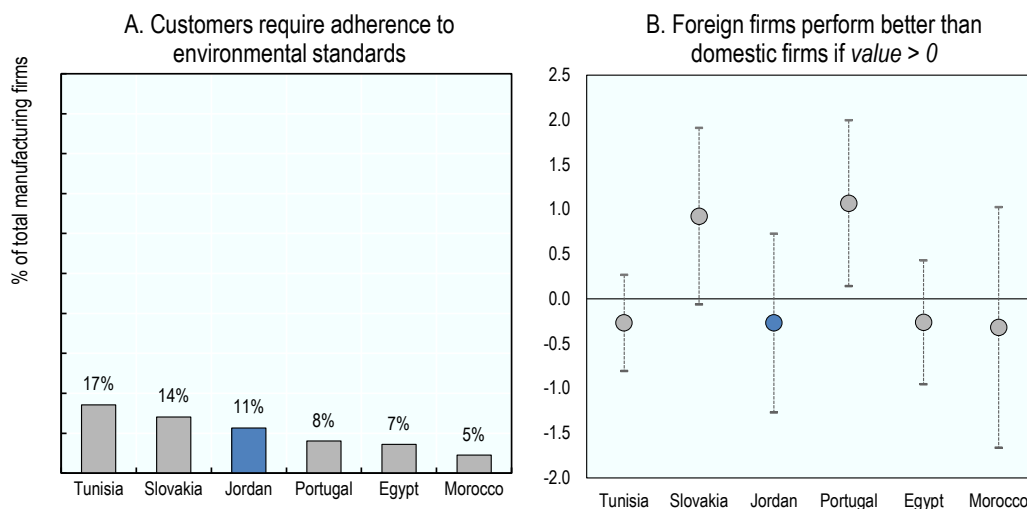
Figure 5.9. Monitoring emissions of suppliers



Note: Panel A shows the shares across all firms, while Panel B shows the percentage differences across foreign and domestic firms (circle) and the 95% confidence intervals around such differences (line).

Source: OECD based on World Bank (2021^[7]).

Figure 5.10. Environmental requirements for suppliers



Note: Panel A reflects all firms, while the right-hand panel shows the percentage differences across foreign and domestic firms (circle) and the 95% confidence intervals around such differences (line).

Source: OECD based on World Bank (2021^[7]).

5.4. The governance framework for investment and climate policy

Over the last decade, the Government of Jordan has demonstrated its commitment to transition towards a green economy, viewing it not only as a choice but as the only way forward. The government supports this ambition with various multi-year strategies and plans, overseen by dedicated councils and committees, ministries and implementing agencies. This section provides an overview of government strategies and the institutional setup at the intersection of investment and climate policy.

5.4.1. Jordan has a coherent framework of national strategies to address climate change

Since 2017, Jordan has made green growth a top national priority (Ministry of Environment, 2017_[10]), and made an effort to align and consolidate its many national strategies and action plans relating to climate change and sustainable development under the National Green Growth Plan (NGGP). This Plan was designed to mainstream green growth, climate change, and sustainable development objectives into sectoral strategic frameworks, and strengthen cross-sectoral alignment and collaboration. Its first objective was to build a business case for green growth, then to understand what was preventing Jordan from achieving its green growth objectives, and finally, to offer guidance in the context of green growth and, ultimately to support implementation of Jordan's development strategy Vision 2025 (Figure 5.11).

This NGGP focuses on six priority sectors that provide coverage of key green growth issues and opportunities for Jordan: namely, agriculture, energy, tourism, transport, waste and water. These green economy sectors combine high-potential growth areas (e.g. tourism) and sectors that threaten to inhibit Jordan's development if not properly managed (e.g. water), and are generally consistent with the MoI's investment promotion focus, as defined by the 2014 Investment Law. As part of the implementation of the NGGP's recommendations, sector-specific Green Growth National Action Plans 2021-2025 (GG-NAP) were developed by the Ministry of Environment in collaboration with the relevant sector line ministries, so as to ensure cross-sectoral alignment and collaboration, and to consolidate pre-existing sector-specific strategies and plans.

Each of the sectoral GG-NAPs builds on existing sector-specific strategies, policies and plans, as well cross-sectoral climate strategies and identifies a set of priority policy actions to achieve green growth, estimating their expected costs of implementation, and emphasising the need for public and private investment, as well as donor support for their implementation. Each action is linked to one or more of the five desired outcomes of green growth – namely, (1) enhanced natural capital; (2) sustained economic growth; (3) social development and poverty reduction; (4) resource efficiency; and (5) climate change adaptation and mitigation. Together these plans identify 86 priority policy actions and projects, and offer a full implementation framework for green growth in Jordan that can be benchmarked for the next national development planning process (Ministry of Environment, 2017_[10]).

While there is mention in the NGGP and across the sector GG-NAPs about the importance of stimulating private sector investment in new and adaptive technologies to achieve the desired green growth outcomes, the references are somewhat general and rarely linked to specific priority actions or projects. Greater efforts could be made to clarify the role of private investors more explicitly and specifically. In addition, while the 2014 Investment Law identifies renewable energy as a priority sector for investment attraction, the Investment Promotion Strategy 2016-2019 considers that there are currently limited private investment opportunities in renewable energy (assigned a Tier 3 priority level). This means that, according to the strategy, investment opportunities in renewables will be considered on a reactive rather than proactive basis by the investment promotion agency. This is somewhat at odds with the National Green Growth framework and its key focus on decarbonising the energy sector. Nevertheless, this is subject to review after the three-year planning cycle, and may currently be under review.

Figure 5.11. The NGGP consolidates national climate strategies and implementation plans



Source: OECD FDI Qualities Mapping (2021).

5.4.2. The institutional setting governing FDI impacts on carbon emissions is complex

A complex system of institutions design and implement investment, climate and energy policies in Jordan, and it is important for coordination mechanisms to be in place to ensure their coherence and consistency, and achieve desired outcomes related to FDI and carbon emissions (Figure 5.12). Oversight of this framework is the responsibility of two high-level inter-ministerial councils:

- The **Investment Council** oversees the development and implementation of investment policies. The Investment Council is headed by the Prime Minister and brings together several ministers (e.g. Minister of Industry and Trade and Supply and Minister of Planning and International Cooperation), the Chairman of the Jordan Investment Ministry, and the Governor of the Central Bank, chambers of commerce and industry and other representatives from the private sector. Members submit recommendations on investment strategies, policies and reforms directly to the Council. One of the priority sectors identified by the 2014 Investment Law is renewable energy; however, the Council does not include the Minister of Energy and Mineral Resources, or the Minister of Environment, responsible for the broader green growth strategy.
- The **Higher Steering Committee for Green Economy (HSCGE)** oversees green growth policies across all relevant sectors of the economy. The HSCGE is chaired by the Minister of the Environment and composed of the Secretaries General of each of the line ministries responsible for the six green economy sectors (Energy, Transport, Water, Agriculture, Waste, Tourism), as well as the Ministry of Finance and the Ministry of Planning and International Cooperation (MoPIC). The HSCGE reports directly to the Prime Ministry, who chairs the Investment Council, suggesting that the latter holds the ultimate authority overseeing the framework for investment in green growth. The HSCGE does not directly include private sector representatives, but engages with them through its operational arm, the Green Economy Unit of the Ministry of Environment.

Implementation of investment, climate and energy policies is the responsibility of three main agencies with clear but in some cases overlapping mandates:

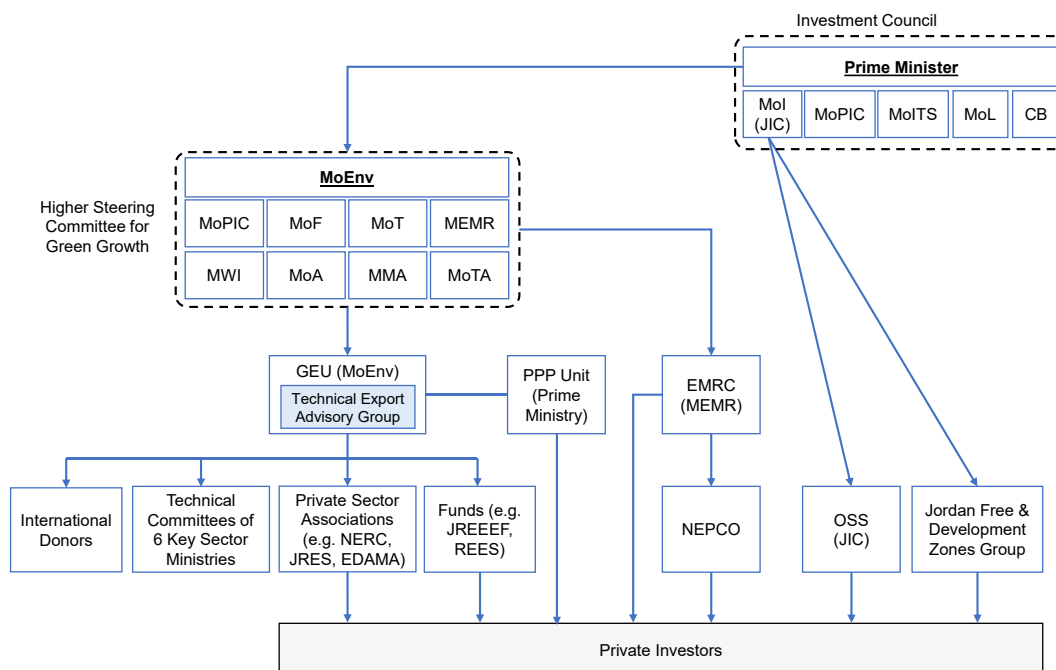
- The HSCGE directly oversees the **Green Economy Unit** within the Ministry of the Environment, the leading operational actor responsible for delivering green growth in Jordan. Integrated into the Green Economy Unit is an advisory board with technical experts to ensure that long-term national goals are linked to green growth objectives. The unit gathers information related to the implementation of green growth policies from a range of stakeholders, including the Technical Committees from the Ministries covering six green economy sectors, international and national funds (e.g. JREEEF), international donors, and the private sector. The PPP Unit and the Green Economy Unit coordinate their support for green project implementation.
- The Ministry of Energy and Mineral Resources (MEMR), which sits in the HSCGE, oversees the **Energy and Minerals Regulatory Commission (EMRC)**, the country's electricity regulator. The EMRC is an independent government authority in charge of issuing licences for power generation, establishing the methodological processes for computing energy tariffs, and drafting by-laws for the energy sector. It aims to improve economic feasibility and efficiency of the energy sector and ensures that the projects operating in the sector comply with environmental standards. It has issued several by-laws and regulations related to investment incentives and financing schemes for renewable energy, and is responsible for licensing renewable power projects.
- The **Jordan Investment Commission (JIC)**, hosted within the newly established Ministry of Investment, is responsible for investment promotion and facilitation. The JIC is part of the Investment Council and oversees Free Zones, Development Zones, and Special Economic Zones, and, through its one-stop-shop, facilitates licensing procedures for all types of investment. However, most renewable projects (larger than 1MW) are licensed by the EMRC, with the exception of Zone projects that are regulated by JIC. This can create potential confusion for private, and particularly foreign investors in renewable power generation.²

Other stakeholders that provide key inputs for the design and implementation of green growth policies include a variety of research centres, funds, and business associations:

- The **National Energy Research Center (NERC)** is a specialised centre within the Royal Scientific Society, an independent non-governmental and non-for-profit multi-disciplinary science institution established by Royal Charter. The NERC undertakes specialised and accredited testing, research work with local industries and universities, and provides technical advice related to energy efficiency and renewable energy to the private and public sectors.
- The **Jordan Renewable Energy and Energy Efficiency Fund (JREEEF)** was established in 2012 by the MEMR under the Renewable Energy and Energy Efficiency Law to facilitate the scaling-up of renewable energy and energy efficiency in order to meet the energy needs of Jordan, in accordance with the National Energy Strategy and National Energy Efficiency Action Plan. JREEEF is governed by a management committee chaired by the Minister of MEMR and is comprised of six members from the private and the public sector. JREEEF provides financial and technical assistance to project developers, targeting small-scale solar projects by households, SMEs, the tourism sector, the health sector, public buildings, and facilities such as schools.
- The **Jordan Environment Fund (JEF)** was established by the Ministry of Environment in 2006 to provide financial support for projects in the context of environmental protection and preservation. It focused on different environmental areas, including renewable energy, municipal works, agriculture and waste management. The Fund is managed by a board of directors, headed by the Minister of Environment, and with the participation of 5 public and 5 private sector entities.
- The **Association for Energy, Water and the Environment (EDAMA)** is a Jordanian business association established in 2009 to find innovative business solutions for energy and water independence and for environmental conservation. Its members comprise almost all energy services providers in Jordan.

- The **Renewable Energy Establishments Society (REES)** is a business association established in 2014 to represent all renewable energy services and energy management companies, with the purpose of defending their interests and improving market conditions in the sector. Over 40 companies are members of JRES as of September 2020.

Figure 5.12. Institutional setting affecting investment's carbon impacts



Note: CB = Central Bank; EMRC = Energy and Minerals Regulatory Commission; GEU = Green Economy Unit; JIC = Jordan Investment Commission; MoA = Ministry of Agriculture; MEMR = Ministry of Energy and Mineral Resources; MoEnv = Ministry of Environment; MoF = Ministry of Finance; MoI = Ministry of Investment; MoITS = Ministry of Industry, Trade and Supply; MoL = Ministry of Labour; MMA = Ministry of Municipal Affairs; MoPIC = Ministry of Planning and International Cooperation; MoT = Ministry of Transport; MoTA = Ministry of Tourism and Antiquities; MWI = Ministry of Water and Irrigation; NEPCO = National Electric Power Company; OSS = One-Stop Shop.

Source: OECD FDI Qualities Mapping (2021).

5.4.3. Implementation agencies have overlapping responsibilities when it comes to renewables

Following the recommendations of the NGGP, the HSCGG was created to oversee policies and institutions affecting green growth across all sectors and line ministries, under the leadership of the Ministry of Economy. While there are no explicit mechanisms in Jordan that are dedicated to horizontal policy coordination across ministries dealing with green growth and those responsible for investment, the HSCGG reports directly to the Prime Minister, who chairs the Investment Council. This should ensure that the green growth strategy and framework are aligned with the Investment Council's investment priorities and policies.

At the same time, both the Minister of Environment, responsible for the overall green growth agenda, and the Minister of Energy and Mineral Resources, responsible for the energy strategy and related renewable energy regulation and policies, are not included in the Investment Council. This may not be necessary, and indeed the governing boards of many investment promotion agencies do not include representatives of the ministries in charge of environmental policy, although somewhat more frequently they include ministries in charge of energy policy (OECD-IDB, 2019_[11]). However, one of the key priorities of the Investment Council, as stated by the 2014 Investment Law, is to attract investment in renewable energy.

As MEMR is responsible for the national energy strategy, including renewable energy, there may be scope for involvement of the ministry in the Investment Council.

While it is challenging to assess the extent of inter-agency coordination, in the case of renewable energy there is some overlap in mandates and responsibilities across different implementing agencies, which may create unnecessary administrative burdens for investors. Several governmental institutions are involved in setting administrative and licensing procedures for renewable-energy projects. The one-stop-shop (OSS) Investment Window within the MoI was established to facilitate licensing procedures for all types of investment. The MoI also provides licences to free zone and SEZ investors, some of which target renewable power generation. However the main licence that a renewable project developer must obtain (for projects larger than 1MW) is a power-generation licence delivered by the electricity regulator, the EMRC. Streamlining and unifying licensing and registration procedures under one authority for all renewables projects could help decrease transaction costs for investors and project developers.

5.5. Policies for improving FDI impacts on carbon emissions

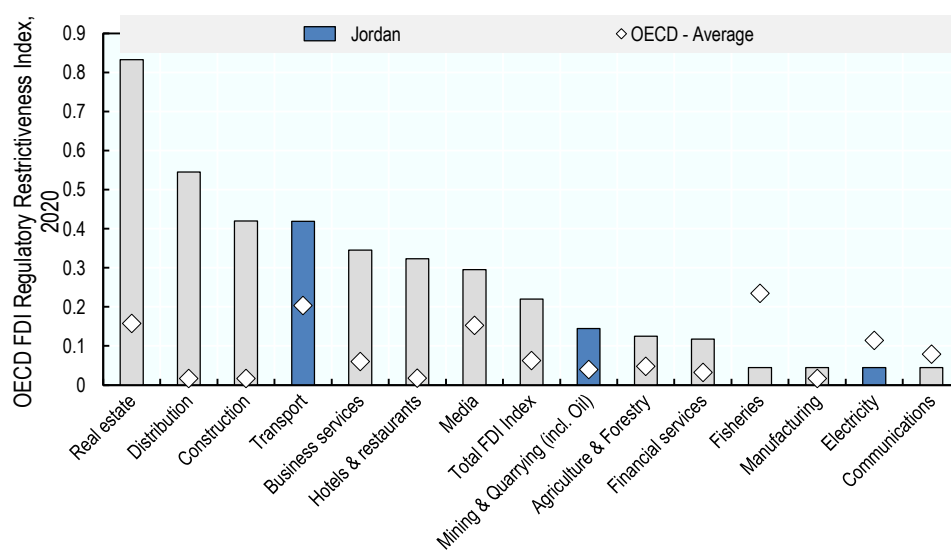
Improving the investment climate and stimulating private investment has long been a priority for the government of Jordan. Creating an enabling environment for green investment has gained traction with the government more recently. To this end, the government is advancing an ambitious programme of reforms to stimulate green investment. This section reviews policies and programmes in Jordan designed to attract green investment, including wider market regulations and targeted financial, technical and information support. The section also reviews Jordan's international commitments and agreements and how they affect environmental standards and impacts of businesses.

5.5.1. FDI restrictions affect sectors that are critical for the low-carbon transition

Jordan's overall scoring under the OECD FDI Regulatory Restrictiveness Index is significantly higher than the average of OECD and non-OECD economies covered by this index (see Chapter 2). This suggests that there are outstanding regulatory barriers to FDI in Jordan. The main sectors behind Jordan's relatively high regulatory restrictiveness index include a number of sectors critical for the low-carbon transition (Figure 5.13).

Transport, for instance, is the most polluting sector in terms of CO₂ emissions in the country and one of the priority sectors identified by the government for green growth. One of the national green growth objectives outlined in the sectoral 2021-2025 GG-NAP is to increase private sector participation in transport sector investments (Ministry of Environment, 2020^[12]). There remain however, equity restrictions on foreign investments in all forms of transport, as well as other operational restrictions that discriminate against foreign investors. The transport sector is also among the sectors that has attracted the least foreign greenfield investments over the last decade, suggesting that these regulatory barriers deter to some extent foreign investments. Foreign ownership in engineering and construction services, as well as in wholesale and retail trade (including in energy services), is limited to 50%. Restrictions on FDI in these sectors are likely to result in sub-optimal flows of investment, limit the transfer of know-how and may hamper the deployment of low-carbon technologies.

Figure 5.13. FDI restrictions remain in sectors critical for the low-carbon transition



Note: The OECD FDI Regulatory Restrictiveness Index covers only statutory measures discriminating against foreign investors (e.g. foreign equity limits, screening and approval procedures, restrictions on key foreign personnel and other operational measures).

Source: OECD (2021^[13]), OECD FDI Regulatory Restrictiveness Index, <https://stats.oecd.org/Index.aspx?datasetcode=FDIINDEX#>

While electricity generation is relatively open to foreign investments, presenting fewer restrictions than in the average OECD country, other discriminatory measures persist and may inhibit foreign investments in renewable technologies in Jordan. For instance, the local content requirements on solar photovoltaics and wind turbines (of 35% and 20%, respectively) are misaligned and at odds with Jordan's relatively limited manufacturing capacity of related components. Currently, there is only one domestic assembler of solar panels in Jordan (Philadelphia Solar), two manufacturers of solar water heaters (Hanania Solar and Nur Solar Systems), and no manufacturer of photovoltaics or wind turbines components. Such strict local content requirements are likely to discourage foreign investments in downstream solar and wind power generation. Instead, the government could promote development of local industry in the manufacturing of specific solar and wind components by providing targeted investment incentives.

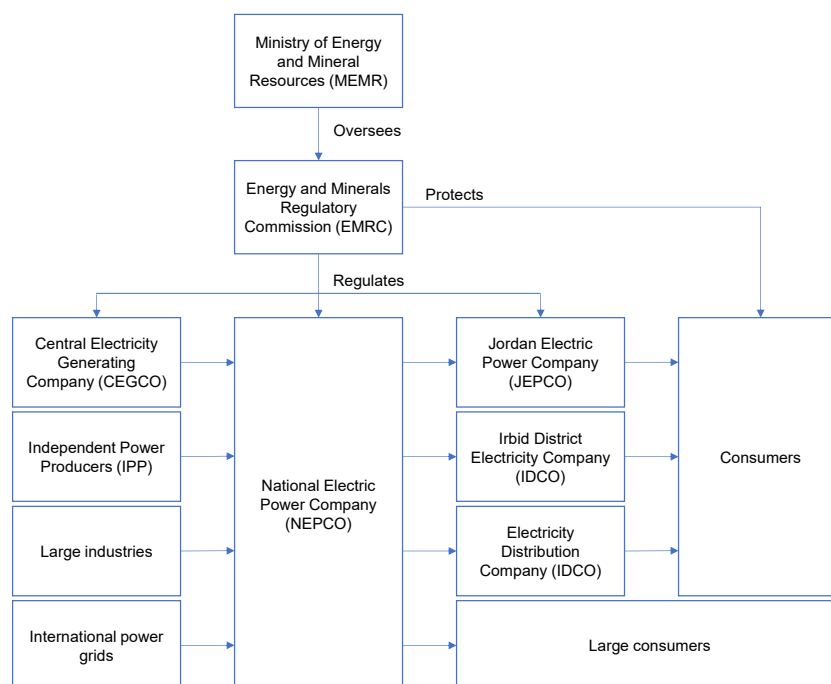
5.5.2. Increasing competition in the power sector can help attract clean energy investment

Competitive pressure is a powerful incentive to use scarce resources efficiently. By helping to achieve efficient and competitive market outcomes, competition policy contributes to the effectiveness of climate policies. Competition policy may be especially important for supporting decarbonisation of the power sector, which is traditionally characterised by vertically integrated monopolies. Unbundling the power sector by separating power generation, transmission and distribution functions can help create more space for private investment. Moreover, by opening competition in power generation, unbundling provides more space for clean energy technologies to enter the market and can therefore stimulate changes in the national energy mix. The decentralised nature and the smaller generation capacity of clean energy projects compared to their fossil fuel counterparts, makes independent power production well-suited for mainstreaming clean energy technologies. In the areas of transmission and distribution, increased competition can also render the national energy network more flexible, increasing its capacity to accommodate both on- and off-grid renewable energy (OECD, 2015^[14]).

Jordan is the only country in the MENA region that has implemented structural separation of electricity generation, transmission, and distribution, by adopting a ‘single buyer’ model under the 2003 General Electricity Law (Figure 5.14). The state-owned utility, NEPCO, overseen by the electricity regulator (EMRC), owns and operates transmission lines and acts as the single buyer, purchasing electricity from different generators and selling it to distribution companies. The government privatised several power generation and distribution companies to open the power sector to foreign and domestic investors. The General Electricity Law guarantees non-discriminatory access to the transmission lines. In addition, the Renewable Energy and Energy Efficiency Law requires NEPCO to purchase electricity from renewable-power projects that are awarded power purchase agreements, either through competitive tendering or direct proposal submissions. This is a crucial first step to create an investment environment that is attracted to foreign renewable power producers.

The current single buyer model can nevertheless limit the penetration of renewable energy in the electricity sector, by reducing the bargaining power of independent renewable power producers (IPPs), and reduce the attractiveness of Jordan’s electricity market to potential foreign investors. As IPPs are not free to engage in power purchasing agreements with other potentially interested buyers, this can lead to economic inefficiency and increases the risk of abuse of market power by the single buyer. The government could consider enabling the three main electricity distributors to purchase electricity directly from the producers at market prices reflecting supply and demand, in order to level the playing field for foreign investors in renewable power. Gradually transitioning from power purchase agreements to a well-designed wholesale market for electricity could further enhance the ability of the power sector to accommodate high shares of renewable energy. While renewable-energy-based electricity generation is subject to fluctuations, demand must always be satisfied. Wholesale markets increase the flexibility of the electricity network and allow for a more cost-efficient allocation of power generation.

Figure 5.14. The electricity sector in Jordan



Source: Adapted from OECD (2016_[15]).

5.5.3. Access to land can hinder renewable-power projects

Access to land is an important consideration for all investors but may be critical for clean energy investors. In fact, one of the major challenges for renewables investment in Jordan is accessing lands suitable for renewable-project development. Most renewable energy plants demand more surface per megawatt installed than their fossil-fuel counterparts. As a result, renewable energy plants often require the company leading the project to engage with more than one landowner. Thus, inadequate property registration systems can substantially raise the transaction costs associated with clean energy investments (OECD, 2015^[14]).

One of the main procurement methods for renewable power in Jordan is direct proposal submissions scheme, whereby independent power producers (i.e. the investors) are responsible for acquiring the development assets by themselves and are guaranteed a tariff for the power they produce (OECD, 2016^[15]). Under this scheme, investors that submit successful proposals are responsible for acquiring permits and undertaking necessary assessments. As the MEMR does not acquire and lease land for renewable energy projects, this can create additional burdens and transaction costs for investors. Recent evidence suggests that independent power producers must undertake lengthy negotiations with landowners and contend with land speculation, resulting in higher project costs (OECD, 2016^[15]). The lack of transparency on available lands suitable for development of renewable facilities is also a constraint for small-scale renewable investments developed under the wheeling scheme.

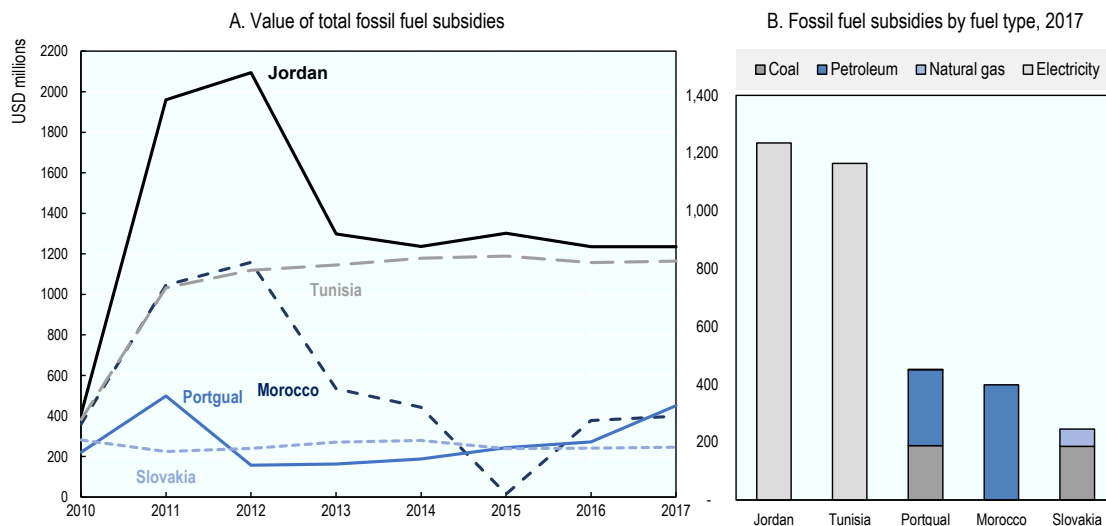
In order to reduce transaction costs associated with securing land, policymakers could create a database of available public land for renewable projects and potentially facilitate land acquisition procedures through a centralised office. The government could further identify available private lands, and provide lenders with a mechanism to ensure that leases of land with multiple private owners can be efficiently concluded. Jordan could also map the geographical distribution of renewable-energy resources to improve co-ordination between land use planning and renewable-power infrastructure development. Geographical mapping of resources would help identify which areas may require land-use adjustments to allow for deployment of renewable-power projects.

5.5.4. Jordan has made significant strides in reforming energy subsidies

While the regulatory framework is important to create an enabling environment for low-carbon investments, targeted measures are necessary to remove price distortions that result in over-investment in carbon-intensive activities. One such measure is to phase out inefficient energy and fossil fuel subsidies. Fossil fuel subsidies impose a huge cost on public budgets and expose national budgets to energy price fluctuations. For net energy importers like Jordan, fossil fuel subsidies exacerbate import dependence. Phasing out such subsidies can make private investors more inclined to invest in alternative energy sources and better technologies, increasing the energy efficiency and decreasing the energy intensity of these economies.

The government initiated substantial petroleum subsidy reforms in 2012, successfully phasing them out by 2014 and greatly reducing the total cost of energy subsidies. Electricity subsidies persisted in an effort to shield poorer consumers from prohibitively high energy prices, resulting in energy subsidies of over USD 1 billion in 2017, the highest across the group of comparator countries (Figure 5.15). Fuel price shocks and the resulting high electricity costs that were not passed on to consumers placed an enormous fiscal burden on the government. In 2017, the EMRC adopted an Automatic Electricity Tariff Adjustment Mechanism, which ensures that increases (or decreases) in global oil prices are reflected in consumer tariffs on a monthly basis (taking into consideration consumer affordability), and has since allowed the electricity sector to remain broadly at the cost-recovery levels since (World Bank, 2018^[16]). Allowing for greater flexibility in electricity prices is an important first step to create incentives for private investments in energy efficiency and in alternative energy sources.

Figure 5.15. Energy subsidies remain high relative to peers



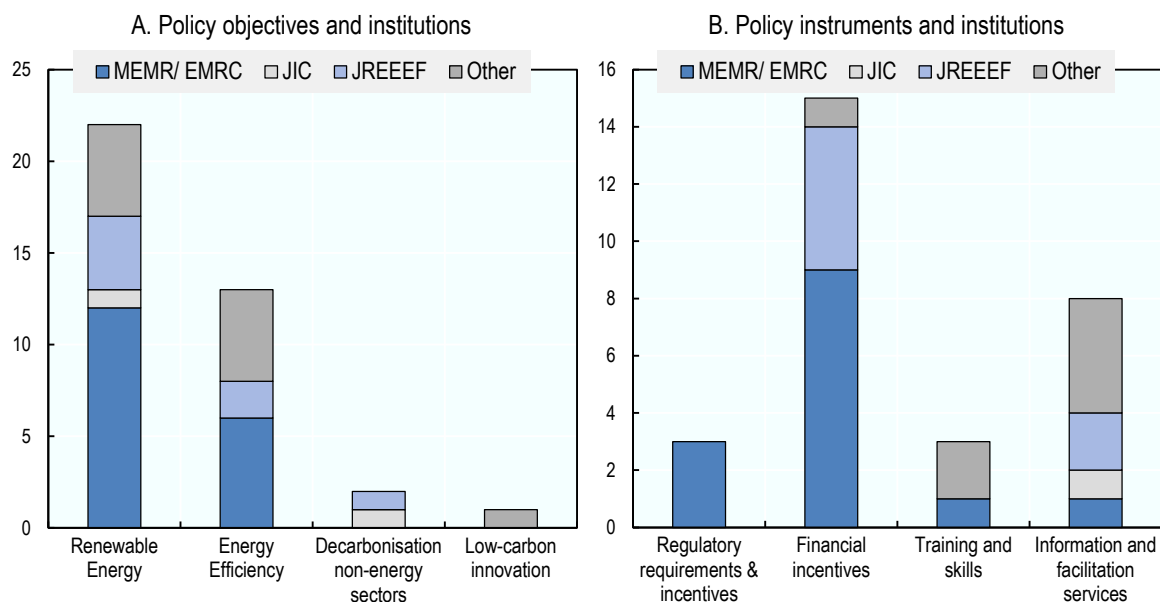
Note: Estimated values include all types of government transfers for all types of users.

Source: OECD based on fossilfuelsubsidytracker.org

5.5.5. Targeted financial, technical and information support focus on expanding renewable energy capacity

The key institution responsible for developing, implementing and financing proactive policies and programmes to decarbonise the economy, including attracting private investment in support of decarbonisation, is the Ministry of Energy and Mineral Resources (MEMR). Indeed, perhaps as a result of Jordan's energy-related challenges, the majority of these policies seek to expand renewable energy generation capacity and are implemented by the MEMR, the electricity regulator (EMRC) or the Jordan Renewable Energy and Energy Efficiency Fund (JREEEF), both of which are also under the oversight of the MEMR (Figure 5.16, Panel A). The second most frequent policy objective is to promote energy savings and increase energy efficiency of economic activities, while only one policy intervention targets low-carbon innovation, perhaps as a result of Jordan's still limited capabilities in developing new low-carbon technologies. The preferred policy instruments to achieve renewable energy (RE) and energy efficiency (EE) targets are a variety of financial and fiscal incentives for related investments, as set out in several regulations and by-laws established by the MEMR and its implementing bodies (Figure 5.16, Panel B). Such policies are designed to influence the energy characteristics of investment entering the country, and their resulting direct impact on emissions. This impact can be quite large insofar as foreign investors expand the clean energy options available to domestic investors.

Figure 5.16. Main objectives, instruments by implementing institutions



Source: OECD FDI Qualities Mapping (2021).

The key legislation that has supported the expansion of such investments is the 2012 Renewable Energy and Energy Efficiency Law (REEEL), which regulates the public procurement procedure for the development of RE projects (i.e. competitive tenders and direct proposal submission), establishes a fixed price (feed-in-tariff) guaranteed to energy generated from renewables, and sets up the JREEEF. The REEEL also establishes net-metering and wheeling schemes, which essentially incentivise industrial or commercial investors to produce their own renewable energy and sell any excess energy at a fixed price. The 2013 by-law on Tax Exemption for RE and EE further stipulates exemptions from customs duties and sales tax for RE equipment and related parts and components. These financial and fiscal incentives provided to RE investors are not advertised on Mol's website, which raises questions as to whether foreign investors are aware of them. Greater coordination with the Mol to ensure that available financial incentives are included in promotional material published by the IPA may raise the effectiveness of these instruments in attracting low-carbon energy investments internationally. Evidence from an OECD mapping of 10 countries, including Jordan, suggests that financial support for renewable energy technologies should be time-limited and regularly reviewed, and should decrease as the technology matures (Box 5.2).

The JREEEF has implemented various programmes targeting specific sectors (e.g. industry, tourism). These programs often involve free energy audits, and technical and financial support for implementing the RE and EE measures identified by the energy audits (e.g. installing solar water heaters). The JREEEF actively collaborates with local commercial banks, international donors and the Jordan Chamber of Industry in the delivery of these programmes, which can significantly contribute to emissions reductions and greening of existing investments, including foreign investments. The JREEEF and several non-governmental organisations, including the Renewable Energy Establishments Society and the Royal Scientific Society have also financed and implemented information campaigns to raise awareness about energy savings and renewable energy opportunities targeting consumers and small businesses. The Coalition of Energy Services Associations set up a voluntary accreditation programme for energy suppliers to increase the visibility and competitiveness of top low-carbon providers. These types of programmes influence not only the characteristics of investments and resulting direct impacts on emissions, but also their potential for spillovers through competition and imitation by domestic businesses. By increasing awareness among consumers about the energy and emissions characteristics of energy companies and

products, they can enhance the attractiveness of low-carbon investments, and induce domestic competitors to replicate their low-carbon business models.

Box 5.2. Financial support for renewables decreases as technologies mature

The extent and type of financial support provided to expand renewable energy generation capacity varies across countries, often as a function of the extent of penetration of renewable energy technologies. Climate leaders like Sweden and Costa Rica, which rely overwhelmingly on renewable energy, tend to offer little or no government support for renewable energy generation in the form of tax incentives, grants or subsidies (aside from subsidies for micro-production by households and non-energy enterprises). Sweden rather adopts market-based support measures, like tradable electricity certificates. Costa Rica focuses on developing domestic supply chains to produce renewable energy equipment locally.

Countries that still depend heavily on fossil fuels but where renewable capacity is rising rapidly, like Thailand, Morocco and Jordan, tend to offer a mix of investment incentives on renewable energy equipment, fixed feed-in-tariffs (FITs) for renewable electricity fed into the grid, and public tenders for new installations of renewable energy infrastructure. Studies provide some evidence that price-based support schemes such as FITs and premiums are more positively correlated with investors' ability to raise private finance than quota-based schemes, and therefore may be more appropriate for countries at an earlier stage of the energy transition (Table 5.1).

Countries with still limited renewable energy capacity like Tunisia and Uzbekistan primarily employ a combination of public tenders, corporate tax holidays and import duties exemptions on machinery and equipment.

Table 5.1. Overview of financial support for renewables in selected countries

Country	Tax incentives	Feed-in-tariffs	Public procurement	Tradable certificates
Canada	Accelerated depreciation of RE machinery and equipment			
Costa Rica	VAT exemption on imported machinery and equipment			
Jordan	Customs and VAT exemption on machinery and equipment	Wind, solar PV, thermal, biomass and biogas	Direct Proposal Submission, Build Own Operate scheme	
Morocco		Wind power (EnergiPro Programme)	ONE IMs tender process	
Rwanda	CIT reduction (50%) and VAT exemption (machinery)	Small hydro power	Tenders for solar plants	
Senegal	Deductions on installations, VAT and customs exemptions	Solar PV	Tenders for suppliers of solar mini-grids	
Sweden	Energy tax exemption for self-produced RE			Tradable Electricity Certificate
Thailand	CIT holiday, customs exemption (machinery)	Distributed solar systems		
Tunisia	Exemptions on CIT (4 years) customs and VAT (machinery)		Build Own Operate scheme	
Uzbekistan	Exemptions on CIT (5 years), property and land tax (10 years)		Several tenders for RE installations	

Source: OECD (2022^[5]), FDI Qualities Policy Toolkit.

Three programmes provide training to promote career opportunities related to low-carbon technologies. In particular, the MEMR provides access to a professional certification programme for energy managers tailored to the Arab region; the Vocational Training Corporation offers technical training and certification

on skills related to renewable energy and energy efficiency; and NEPCO offers an apprenticeship programme targeting young professionals in the energy sector. Such programmes enhance the attractiveness of Jordan as a destination for low-carbon investments (i.e. direct impact), and additionally help develop the capabilities necessary for knowledge to spill over from foreign to domestic firms.

The role of the MoI in the design and implementation of policies to promote low-carbon investments remains limited to the provision of information related to low-carbon investment opportunities in key sectors such as energy and transport. JIC's Energy Sector Profile, in particular, provides a detailed overview of clean energy investment opportunities and may be an effective tool to target foreign investments in the sector (JIC, 2018^[17]). The Transport Sector Profile identifies investment opportunities to develop the national rail network, but fails to identify investment opportunities related to electrification of road transport, which is a key green growth priority identified in the Transport Sector GG-NAP 2021-2025 (JIC, 2017^[18]). Moreover, in its informational and promotional material relating to other priority sectors such as tourism and industry, there is no mention of green investment opportunities, for instance relating to energy-saving or electrification opportunities in tourism and industry (JIC, 2017^[19]; JIC, 2017^[20]). This is a missed opportunity to link the national green growth agenda to the investment promotion agenda, and the MoI could consider further tailoring its investment promotion material and activities to target low-carbon investors.

5.5.6. Few of Jordan's international investment agreements address climate concerns

Properly designed investment and trade agreements can play a constructive role in fostering international investment, including in low-carbon technology, services and infrastructure. Depending on the way in which international investment and trade agreements address environmental concerns, or fail to address them, these treaties may in some cases be perceived to conflict with climate objectives and with the measures taken by states to implement the Paris Agreement. Investment agreements may limit the ability of governments to restrict new fossil fuel investment projects, or phase out fossil-fuel-based infrastructure. Provisions that guarantee pre-establishment rights can limit the ability of developing countries to hold foreign investments to their home countries' higher environmental standards in cases where domestic laws on environmental protection applicable to domestic companies are weak or missing. WTO rules may prevent states from regulating traded goods on the basis of the climate impacts of their production. States may also seek to protect low-carbon industries as a means of achieving long-term decarbonisation targets, and these trade protections may run contrary to free trade principles. States with both an interest in seeing robust climate action and a deep involvement in investment and trade negotiations are in an important position to ensure alignment and mutual reinforcement across climate, trade and investment regimes.

International investment agreements (IIAs) – including bilateral investment treaties (BITs) and regional trade agreements (RTAs) with investment chapters – can form part of wider policy efforts to create incentives for investments that help transition to low-carbon energy infrastructure, reform the current reliance on fossil fuels or correct regulations that weaken the business case for investment and innovation in low-carbon infrastructure. Newer BITs and RTAs, in particular, increasingly feature explicit language that reflects environmental concerns (Gordon and Pohl, 2011^[21]; OECD, n.d.^[22]). These references vary in specificity, objective and in their use across different types of agreements (Table 5.2).

According to the OECD FDI Qualities Mapping, there is wide variation across countries in the extent of referencing of environmental priorities in investment and trade agreements, and Jordan ranks among the countries with the fewest environmental references. Canada's BITs and RTAs contain 75 explicit references to preserve domestic policy space for environmental regulation, or to prevent the lowering of environmental standards for the purpose of investment attraction, or both. Significantly fewer treaties present such safeguards in other countries covered by the mapping, with explicit environmental references ranging from 15-20 in Morocco, Thailand and Sweden, to 4-5 in Uzbekistan, Tunisia and Jordan. Specifically, in Jordan, three BITs contain provisions that preserve domestic policy space by excluding

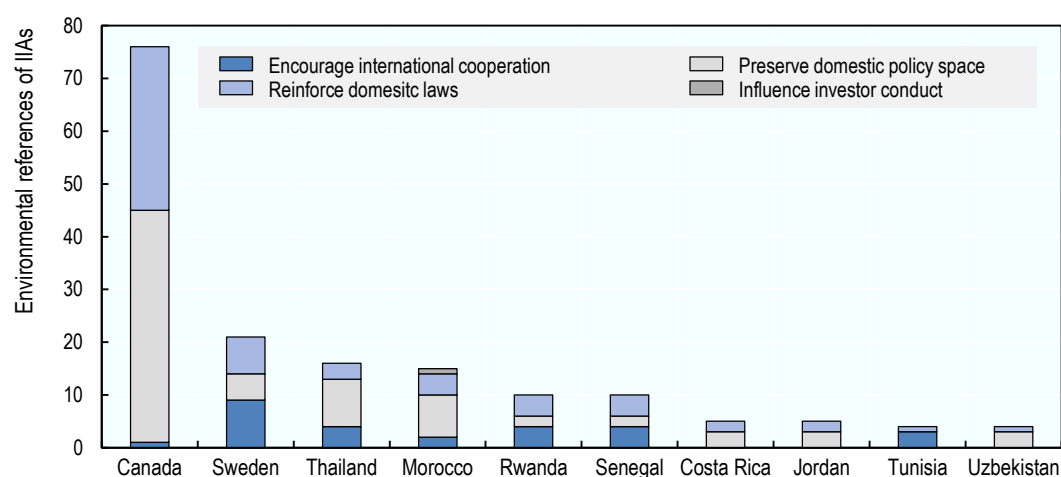
indirect expropriation from non-discriminatory measures to protect the environment; one RTA reaffirms Jordan's right to regulate on environmental matter; and three BITs and one RTA contain provisions that mandate the non-lowering of standards for the purpose of investment attraction, thereby reinforcing domestic law. The relatively limited use of environmental provisions and safeguards may expose Jordan to litigation risks under older investment treaties and as the government endeavours to strengthen environmental regulation or expand policy support for low-carbon investments.

Table 5.2. Illustration of how IIAs explicitly address environmental protection and climate action

Policy objective	Type of reference	Example
Encourage international cooperation	General promotion of progress in environmental protection and cooperation	EU-Singapore FTA (2018)
	Commitment to cooperate on environmental matters	ASEAN- Japan Economic Partnership Agreement
Reinforce domestic law	Explicit safeguards or enhancements of international environmental agreements	CARIFORUM-EU FTA (2008)
	Non-lowering of environmental standards for the purpose of attracting investment	Japan-Jordan BIT (2018); Canada-Jordan BIT (2009); Hungary-Jordan BIT (2007); Jordan-US FTA (2000)
Preserve domestic policy space	Explicit affirmation of environmental regulatory power of host state	Jordan-US FTA (2000); EFTA-Jordan FTA (2001)
	Carve-out clauses for environmental measures with respect to treaty provisions	Jordan-Turkey BIT (2016); Canada-Jordan BIT (2009); India-Jordan BIT (2006)
	Exclusion of non-discriminatory environmental measures from ISDS	Canada-Mongolia BIT (2016)
Influence investor conduct	Investor obligations related to environmental protection	Morocco-Nigeria BIT (2016)

Source: OECD (2022^[5]), FDI Qualities Policy Toolkit.

Figure 5.17. Environmental provisions in RTAs and BITs



Source: OECD (2022^[5]), FDI Qualities Policy Toolkit.

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Notes

¹ These estimates should be interpreted with caution as they are based on relatively small sample sizes adjusted using the assigned World Bank Enterprise Survey population weights.

² The Ministry of Investment was created during the time of drafting, and hosts the JIC, which previously reported directly to the Prime Minister. The new institutional relationships have yet to be determined.

FDI Qualities Review of Jordan

STRENGTHENING SUSTAINABLE INVESTMENT

Foreign Direct Investment (FDI) provides an important source of financing in Jordan but its reform momentum needs to be sustained and deepened so that the benefits of investment can be shared more widely across society. This report examines how FDI can help Jordan meet Sustainable Development Goals in areas of productivity and innovation, job quality and skills, gender equality and decarbonisation. It provides an overview of the country's institutional framework for investment and sustainable development and analyses arrangements to ensure policy coordination, stakeholder consultation and evaluation of policy impacts. It also examines the mix of government policies that are currently in place to attract the investment that contributes to sustainable development, noting areas for priority policy reforms.



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