منتدى الاستراتيجيات الأردني
JORDAN STRATEGY FORUM

Applying Turkey's Investment Model in Jordan

A Long-Term Vision for Jordan's Investment Policy

2014

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Jordan Strategy Forum (JSF) is a non-for-profit organization, which represents a group of Jordanian private sector companies that are proactively engaged in promoting Jordan's economic growth. JSF's members are active private sector institutions, who play an integral role in public dialogue over economic and social issues. The Jordan Strategy Forum promotes a strong Jordanian Private Sector that is profitable, employs Jordanians, pays taxes, active in Corporate Social Responsibility (CSR) and supports comprehensive economic growth in Jordan.

JSF also offers a unique opportunity for its members to engage in evidence- based debate with the public sector and links them with decision-makers, in order to increase awareness, strengthen the future of the Jordanian economy, apply best practices and encourage private sector involvement in the decision-making process.

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JSF's Paper "Investment Policy in Action – Success Stories" highlighted the investment policies utilized by Finland and Turkey, whom are internationally recognized as having a successful investment policy that helped attract foreign direct investment (FDI). The paper also featured a small brief to the application of the aforementioned policy to Jordan's case.

This paper will attempt to adapt the Turkish model of investment policy to Jordan. The content of this paper is twofold. Firstly, we give a brief summary of Turkey's investment policy along with an overview of their recent economic performance. The latter part will elaborate on a proposed long-term vision for Jordan's investment Policy that is based on the Turkish model.

Turkey

Recent Economic Performance

Turkey has rebounded remarkably from the Great Recession that hit it the hardest in 2009. Despite the negative growth in all of the economic indicators between 2008 and 2009, Turkey managed to achieve growth rates in 2009 that compensate for the negative effect of the Great Recession in only one year with the exception of GDP per Capita which required two years to recover from such adverse effects.

Economic Indicator	2008	2009	2010	2011	2012	2013(a)
GDP (US$BN) - Current Prices	730.3	614.6	731.1	774.8	788.3	821.8
GDP PPP (Int'l $BN)	907.9	870.8	962.0	10,67.0	1,109.2	1,167.4
GDP per Capita (US$)[1]	10,273.0	8,530.0	10,015.0	10,477.0	10,527.0	10,745.0
GDP per Capita PPP (Int'l $)	12,771.0	12,086.0	13,178.0	14,428.0	14,812.0	15,264.0
Real GDP Growth (% change yoy)	0.7%	-4.8%	9.2%	8.8%	2.2%	3.8%
(a) IMF Forecast. Data from the World Bank's World Development Indicators						

Investment Policy[2]

[1] Turkey's Population: 74.9 million (2012)
[2] KMPG report – Investment in Turkey: 2013.

Turkey has been restructuring its economy since 1980 along the lines of a more liberal economic policy. The emphasis has been placed on the Turkish private sector especially in productive sectors of the economy. The role of the Turkish government is limited to infrastructure development and provision of public services. Turkey's investment policy provides the right incentives to channel investors towards investing in distressed regions of the country. To that extent, Turkey is separated into six regions based on the development level of the districts and cities in these regions.

Each region has a selected selection of fiscal incentives that are designed to motivate investors towards less developed regions. Regions 1, 2, and 3 are the more developed regions while Regions 4, 5, and 6 and the least developed regions in Turkey. This classification is the backbone of Turkey's investment policy. However, certain provisions exist for other types of investments which we highlight below:

- **Large Scale Investments:** these are investments in excess of TL 50 million (amount varies depending on the industry of the investment).
- **Prioritized Investments:** these investments benefit from incentives that are identical to the incentives given to investments in the 5th region of Turkey. Examples of such investments are investments in infrastructure, accommodation, defense and aviation, education, automotive, medicine, extraction, and energy.
- **Strategic Investments:** these investments are investments that have total imports exceeding TL50 million, added value of at least 40%, and if the total domestic production capacity of the final good to be produces is lower than the imports.

- **Investments in Specialized Regions:** specific incentives are given to investments in the Organized Industrial Zones (OIZ) or investments that are made by an investor with at least 4 individuals.
- **Other Investments:** these are the investments that are entitled to general incentives

Investment incentives are available to investors through an “Investment Incentive Certificate” (IIC) which is obtained from the General Directorate of Incentive Application and Foreign Capital under the Ministry of Economy. The investment can be given incentives if and only if the investment exceed the minimum amount of TL 1 million and TL 500 thousand in the first two and the rest of the regions respectively. An overview of the incentive scheme utilized by the Turkish government can be seen in the following chart:

Incentives	Customs duty	VAT exemption	Tax reduction	SS employer	Land allocation	Interest support	Income w/h tax	SS employee	VAT refund
General Investment	✓	✓							
1st region	✓	✓	✓	✓	✓				
2nd region	✓	✓	✓	✓	✓				
3rd region	✓	✓	✓	✓	✓	✓			
4th region	✓	✓	✓	✓	✓	✓			
5th region	✓	✓	✓	✓	✓	✓			
6th region	✓	✓	✓	✓	✓	✓	✓	✓	
Large scale	✓	✓	✓	✓	✓	x	only in 6th region	only in 6th region	
Strategic	✓	✓	✓	✓	✓	✓	only in 6th region	only in 6th region	✓
Prioritized	✓	✓	✓	✓	✓	✓	only in 6th region	only in 6th region	

x: Not applicable

Investment Incentives[3]

Turkey gives a wide range of incentives that vary by region as seen by the figure above. An overview of such fiscal incentives is given:

- **Customs Duty Exemption:** 100% customs duty exemption is available on the imported machinery and equipment (unless the originating country is an EU country).

[3] KMPG report – Investment in Turkey: 2013.

- **VAT Exemption:** 100% VAT exemption for both domestic purchase of and import of machinery and equipment for the qualified investments.
- **Corporate Tax Reduction:** The base corporate tax rate is 20%. However, Regional and sector-based, prioritized, large-scale and strategic investments are entitled to benefit from corporate tax reduction limited to the tax savings that reach to investment contribution rate. Historically, the reduction amounts have been in the range of 50% - 90%.
- **Social Security Employer Premium Contribution:** This incentive is granted from 2 years to 10 years depending on the location of the investment.
- **Social Security Employee Premium Contribution:** This incentive is provided for investments in the 6th region limited to 10 years.
- **Land Allocation:** Land can be provided to the investors as a right of easement or usage right for 49 years by the Ministry of Finance.
- **Interest Support on the Financing:** The Turkish government contributes to the interest payments on the loans granted in the scope of the incentive regime.
- **Income Withholding Tax:** This incentive is granted to investors only for the investments in the 6th region limited to 10 years.
- **VAT Refund:** This incentive is granted to investors for strategic investments over TL 500 million and limited to their building and construction expenses.
- **R&D Incentives**
    - 100% of R&D and innovation expenditures are deductible from taxable profits for corporate tax purposes provided that the companies making these expenditures are located in a R&D Center and employ at least 50 R&D personnel.
    - The salaries of R&D and support personnel are exempt from income tax (90% exemption for PhDs and 80% for others)
    - 50% of the employer's contribution of social security premiums is supported for five years for each R&D and support personnel
    - A capital subsidy of up to TL 100 thousand that is solely given once to the business ideas of university and college graduates focusing on technology and innovation.
    - All documents pertaining to R&D are exempt from Stamp Tax.

Turkey does furnish additional incentives schemes targeted at fostering technological development. The income derived from software and R&D activities in technology development zones by taxpayers (people doing business in such zones) are exempt from income and corporate income tax until 2023. Moreover, the social security contribution premiums for each R&D and support personnel is supported for 5 years.

Turkey also includes specific provisions to encourage production and export activities. The provisions are mainly conducted through Free Trade Zones (FTZ). The following incentives are granted to businesses in the FTZs:

- Income derived from the sale of manufactured goods is exempted from corporate income tax (dividend distributions are not exempt, however).
- Salary payments made by taxpayers operating in such zones are exempted from the Income Tax.

Applying the Model to Jordan:

Jordan's stands in a perfect position to learn from Turkey's successful experience. The current incentive system in Jordan is characterized as distorted and complicated. This is evident by the existence of multiple investment agencies (Jordan Investment Board, Development Zones Corporation, Industrial Zones Corporation, etc…). Moreover, questions have been raised on the effectiveness of the current incentive scheme and the benefit of current fiscal investment incentives.

The USAID estimates that the current tax expenditures given as investment incentives amount to JD 1,556 million, equivalent to 7% of Jordan's GDP in 2012.[4] Studies and appropriate research to estimate the benefits of such fiscal incentives haven't been conducted due to the fact that the data needed to properly answer that question is difficult to attain.

Therefore, there is much need for a complete overhaul of Jordan's Investment policy. The redesign of **Jordan's investment policy should have clear and well-defined objectives** that act as guiding principles towards the future specification of the Kingdom's investment policy:

1) Reduce the current account deficit.
2) Boost investment support to lesser developed areas.
3) Increase the level of support instruments.
4) Promote clustering activities.
5) Support investments that create the transfer of technology.

In an effort to redesign the investment policy in Jordan, we map the Turkish model to the case of Jordan.

[4] Evaluating Tax Expenditures in Jordan, USAID-funded Fiscal Reform II Project 2013

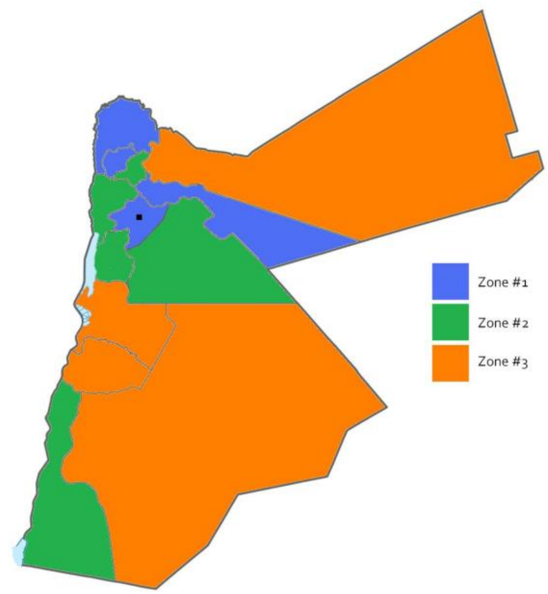
Proposed Investment Policy

One of the key goals of any investment policy is to channel investment towards less developed areas in the country. The successful application of such a system would entail the following:

- A proper design of fiscal incentives.
- Periodic review to evaluate the effectiveness of such fiscal incentives whereby the necessary action is taken based on the relative benefits and costs of these incentives.
- The difference between incentive schemes given to the most developed regions in Jordan and the least developed should be large enough to shift investments to the least developed areas.

The first key element of Jordan's investment policy is to propose a categorization of Jordan into separate zones based on levels of development. Turkey's categorization into different regions, each with its own set of applicable incentives, was based on a socio-economic development ranking conducted by Turkey's Ministry of Development (MOD) through an extensive econometric analysis.[5]

MOD's research utilized a set of 58 indicators, measured for each state, that collectively describe the development level for each state in Turkey. The data provided by these indicators were combined to arrive at a relative ranking for the levels of development for each state. The analysis utilized for Turkey's categorization was replicated to the case of Jordan.[6] Accordingly, we suggest the following categorization of Jordan's governorates into three separate zones where Zone 1 contains the most developed governorates and Zone 3 contains the least developed governorates:



- **Zone 1:** Western Amman, Zarqa, Ajloun, Irbid
- **Zone 2:** Eastern Amman, Madaba, Jarash, Balqa, Aqaba
- **Zone 3:** Mafraq, Karak, Tafileh, Ma'an

A detailed discussion of the different incentives applicable to each zone is discussed in the following section.

[5] "Regional Disparties and Territorial Indicators in Turkey: Socio-Economic Development Index (SEDI)", Metin Ozaslan, Bulent Dincer, Huseyin Ozgur.
[6] A summary of the analysis is reported in the appendix of this paper

Categorization of Investments

Not all investments are equal in importance. Therefore it is imperative to propose a categorization of investments such that more strategic and important investments are given more incentives that ones that are not. In addition to the different incentive scheme per zone, we suggest the following categorization of investments in order for the new investment policy to accommodate for additional incentives for investments that are detrimental for Jordan's economic prosperity:

- **Large Scale Investments:** these are investments in excel of JD 20 million with the amount subject to change according to regulations that define the said amount per each industry.
- **Strategic Investments:** Jordan's Council of Competitiveness and Innovation, led by the Ministry of Planning, defined a set of industries in their National Strategy for Creativity 2013-2017 that have the highest probability of becoming Jordan's key advantage when competing on a global scale. Accordingly, prioritized investments are investments in:
    - Information, Communication and Technology (ICT)
    - Medical Services and Pharmaceuticals
    - Architecture and Engineering Services
    - Clean Technology and Renewable Energy
    - Education and Vocational Training Services
    - Banking and Financial Services
- **Prioritized Investments:** These are investments in excess of JD 20 million, have an added value of at least 40%[7], and are investments that promote Jordan's infrastructure. Some types of these investments are:
    - Transport infrastructure
    - Energy infrastructure
    - Water Management and Conservation infrastructure
    - Communications infrastructure
    - Solid Waste Management
    - Governance Infrastructure (Law enforcement, government offices, prisons, emergency services, etc…)
    - Economic Infrastructure (Financial exchanges, accounting standards and regulations, warehousing and shipping management systems, industrial parks, mines and processing plants for basic materials, agricultural, etc…)

[7] Added value is defined as wages, tax revenue, and profits relative to the invested capital. The 40% threshold is identical to the threshold in Turkey's investment policy. This threshold is subject to change

  - Social Infrastructure (Healthcare system, hospitals, insurance, educational and research systems, social welfare, etc…)
- **Investments in specialized regions:** these are investments in the aforementioned zoning categorization of Jordan's governorates.

Investment Incentives Scheme

The application and allocation of investment incentives should be implemented and monitored by a central agency that reports to the Minister of Finance. Currently, the Jordan Investment Board acts as Jordan's investment promotion agency and disseminates fiscal incentives to applicable investments. Best practices dictate that incentives are given based on an "Investment Incentive Certificate" that defines clearly the allocated incentives for the investment. Incentives can be given to investments that are in excess of JD 600 thousand, 300 thousand, 100 thousand for zones 1 through 3 respectively. The proposed incentive scheme can be summarized in the following chart:

Incentives	Customs Duty	Vat exemption	Tax Reduction	SS Employer	Land Allocation	Interest Support	Income w/h tax	SS Employee	VAT Refund
General Investments	√	√							
Zone #1	√	√							
Zone #2	√	√	√	√	√				
Zone #3	√	√	√	√	√	√	√	√	
Large Scale	√	√	√	√	√		√	√	
Strategic	√	√	√	√	√	√	√	√	√
Prioritized	√	√	√	√	√	√	√	√	

The above investment incentive scheme is designed to channel investments towards less developed areas in Jordan. An overview of each fiscal incentive is as follows:

- **Customs Duty Exemption:** A determined rate of exemption for customs duty on imported machinery and equipment.

- **VAT Exemption:** A determined rate of exemption for both domestic purchase of and import of machinery and equipment for the qualified investments.
- **Corporate Tax Reduction:** Some regional and sector-based, prioritized, large-scale and strategic investments are entitled to benefit from corporate tax reduction limited to the tax savings that reach to the investment contribution rate.
- **Social Security Employer Premium Contribution:** This incentive is based on location where the government finances SS contributions for the employer given from 2 to 10 years.
- **Social Security Employee Premium Contribution:** This incentive is based on location where the government finances SS contribution for the employees for an investment in Zone 3 for a period up to 10 years.
- **Land Allocation:** Land can be provided to the investors as a right of easement or usage right for a long period of time by the government.
- **Interest Support on Financing:** The government contributes to the interest payments on the loans granted for investments that is government by the aforementioned investment scheme.
- **Income Withholding Tax:** This incentive is granted to investors for investments in Zone 3 for a limited period of time.
- **VAT Refund:** This incentive is granted for strategic investments over JD 200 million and limited to their construction expenses.

In addition to the above, we recommend a special provision for incentives that boost research and development since it is identified as a key driver for promoting productivity and sustainable economic growth:

- 100% of R&D and innovation expenditures are deductible from taxable profits for corporate tax purposes provided that the companies making these expenditures are located in a R&D Center and employ at least 50 R&D personnel.
- The salaries of R&D and support personnel are exempt from income tax (90% exemption for PhDs and 80% for others)
- 50% of the employer's contribution of social security premiums is supported for five years for each R&D and support personnel
- A capital subsidy of up to JD 20 thousand that is solely given once to the business ideas of university and college graduates focusing on technology and innovation.
- All documents pertaining to R&D are exempt from Stamp Tax.

This study is the property of the Jordan Strategy Forum (JSF). For further information please contact the research department at: info@jsf.org or by phone at 06-566-6476.