

Human and Economic Development



Identifying and overcoming obstacles to the creation of MSMEs in Jordan

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In brief

Jordanian entrepreneurs face significant administrative and financial difficulties in starting their businesses in Jordan. Rates of failures are high. If entrepreneurship is to constitute a tool against unemployment and a driver of economic growth, it is important that the government re-evaluate the legislation specific to the creation of enterprises.

Based on the experience of the Arab Renaissance for Democracy and Development (ARDD) in establishing an incubator establishment in partnership with the Al-Zummurod for Orientals company in Amman, further supported by research and analysis, this Policy Memo proposes the following recommendations to help entrepreneurs succeed in starting and developing their

businesses, thus becoming true agents of economic change in Jordan.

- Create a more favorable environment by facilitating the registration process and procedures
- Pursue efforts to make aspiring entrepreneurs more familiar with the world of enterprise
- Toward a more even geographical distribution of incubators and facilitators
- Increase efforts to provide young entrepreneurs, female entrepreneurs more especially, with access to finance
- Recognize the specificity of home-based businesses
- Recognize the existence of social enterprises
- Towards a fragmented social security package for small entrepreneurs

Introduction

Whereas entrepreneurship is recognized by the government as an engine of economic growth, job creation and prosperity of its country, people and future, it remains recognized by relevant stakeholders, starting with entrepreneurs themselves, as a weak link in Jordan's labour market. Despite the emergence of an entrepreneurship ecosystem notably composed of technical and financial governmental and private sector technical and credit assistance, challenges faced by Jordanians willing to open and grow businesses remain significant, in the Micro, Small and Medium Enterprises (SMEs) more especially : From financial and administrative challenges, to the lack of entrepreneurship spirit within the Jordanian population.

As part of its Human and Economic Development Forum (HEDF), ARDD has sought to foster transformative change

towards a better-informed, empowered, resilient and just society in Jordan and the Arab World through inclusive and informed socioeconomic research and policy. In this perspective, this policy brief:

1. Describes the formal regulatory framework governing the registration and formalization of enterprises in Jordan
2. Identifies administrative and financial obstacles constraining entrepreneurs' efforts to open their businesses. In so doing, it also reviews the policies and related support mechanisms provided by private and public sectors to sustain the creation of MSMEs, and their limits.
3. Provides actionable recommendations designed to facilitate the establishment of enterprises.

I. The entrepreneurship regulatory system for starting businesses

Registering and formalizing a business makes it a formal entity, allowing it to engage in official transactions, facilitate eligibility for loans and public investment benefits, provide protection against any corporate legal offenses, enabling to attract skilled employees, and allowing to advertise freely, expand the business, and attract new customers. The registration process is governed by a series of laws, including Companies Law No. 22 of 1997 and its amendments, the Vocational Licensing Law No.20 of 1985, amongst others. It is composed of two main stages, each stage including mandatory and non-mandatory steps: First, the registration and licensing of the enterprise (A). Second, its

full formalization to make it entirely functional as a formal institution (B). The following table lays out the official regulations related to these two phases and the modalities of their implementation, irrespective of the size of the enterprise. In past years, Jordan has been increasingly recognizing the specific challenges faced by owners of micro, small and medium enterprises (MSMEs), which constitute the vast bulk of enterprises (up to 98 percent). MSMEs are defined as follows:

MSMEs according to number of employees and annual revenue in sectors of industry (I), services (DS) and Trade (T)

	I micro	I small	I medium	S micro	S small	S medium	T micro	T small	T medium
Employees	< 5	<20	<100	<5	<25	<50	<5	<10	<50
Annual revenue	<100,000	<1 million	<3 million	<200,000	<500,000	1 million	<120,000	<150,000	<1 million

Source: JEDCO. Small&Medium Enterprises Definition (https://www.jedco.gov.jo/EN/ListDetails/Small_Medium_Enterprises_Definition/67/4)

However, registration and full formalization procedures do not differentiate between MSMEs and larger, stronger enterprises.

A) REGISTRATION AND LICENCING (Table from USAID, *The Startup Guide* – Local Enterprise Support Project)

<p>I: PRE-APPROVAL: Mandatory in some specific cases when public safety is involved/ Time: unspecified Fees: Unspecified</p>	<p>Pre-ministerial approvals are required for sectors requiring specific expertise: Food Services and Lodging; Administrative and Support Service Activities; Farming, Forestry and Fishing; Art, Entertainment and Innovation, Construction, Education; Electricity, Gas, Steam and Air Conditioning; Financial and Insurance Activities; Human health and Social Work; Communication and Information; Manufacturing; Mining and Quarrying; Professional, Scientific and Technical Activities; Real Estate Activities; Transportation and Storage Services.</p>
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II: REGISTRATION AS A FORMAL ENTITY (Mandatory, Ministry of Industry and Trade (MIT) -regional branches; 1 day minimum)				
	Type of Enterprise	Responsibility/other characteristics	Requirements	Minimal capital (K) / fees
1	Individual Establishment	-Simplest structure -Full responsibility: Personal money mixed with business revenues/loss cover. -Fees: 49JD-80JD (/K)	-Documents may be required by the MIT Registration office	JD 1,000
2	General partnership	-2-20 partners -Full responsibility (see above) Fees: 160JD	-1 lawyer if K ≥ JD 50,000 -Partnership agreement	-
3	Limited Liability Company	-Most complex structure; in general 2+ owners -1 owner: approval of Companies Control Department (MIT) -Limited responsibility -Shares offered to general public. Fees: 120JD	-1 auditor -1 lawyer if K ≥ JD 20,000	1JD
4	Limited Partnership Company: combination of the categories 2 and 3			
5	Private Shareholder Company	-Generally owned by NGOs or small number of shareholders. -Limited responsibility -Shares sales conducted privately Fees: 130JD	- 1 auditor - 1 lawyer	JD 50,000

III: REGISTER TRADENAME at MIT (67JD -duration: 20 minutes/10 days) / **TRADEMARK** (Optional) (657 JD; duration: unspecified)

IV. MEMBERSHIP IN CHAMBERS OF COMMERCE OR INDUSTRY (regional branches) (mandatory)

	Type of Enterprise	Requirements	Costs		
1	Commercial businesses	<p><i>For enterprises types 1, 2 and (4) above:</i> Proof of registration; trade name, occupational permit, ID (for Jordanians and foreigners), etc.</p> <p><i>For enterprises type 3, (4), 5 above (with shares):</i> In addition: document with the company's capital, names of partners and respective shares, and authorized signatories, issued by the MIT.</p>	From 30JD for K <500JD to 2,250JD for K ≥10 million JD.		
2	Industrial + handicraft businesses	Requirements = commercial businesses (see above)	Costs (Fees) for Industrial businesses with minimum of 10 Jordanian staff with social security Corporation (SSC) and K≥30,000JD		
		Membership fees	Registration fees	Community Service Donations	
		From 100JD (K30,000-100,000 JD) to 1,500JD (K ≥10 million JD)	From 50JD (K30,000-100,000 JD) to 750JD (K ≥10 million JD)	From 50JD (K30,000-100,000 JD) to 300JD (K ≥10 million JD)	
		Costs (Fees) for handicrafts businesses = working in an industrial sector with less than 10 Jordanian employees registered with SSC, or has K <30,000 JDs.			
		Membership fees	Registration fees	Community Service Donations	
		From 20JD (K<10,000 JD) to 70JD (K ≥100,000 JD)	From 10JD (K<10,000 JD) to 35JD (K ≥100,000 JD)	From 10JD (K<10,000 JD) to 70JD (K ≥100,000 JD)	

V. VOCATIONAL LICENSE (at the municipality (M) where the business is established, Department of Lands and Survey (DLS) | Fees depend on sector of activity | Duration: 1 week in principle

1	Pre-approval	Same as first pre-approval prior to registration (see I above)	
2	Documents to be presented, in 2 phases:	<p>Phase 1 (Preliminary approval)</p> <ol style="list-style-type: none"> Valid occupational Permit (M) Copy of a valid site zoning location plan (M) Land or location scheme (DLS) Title Deed (DLS) 	<p>Phase 2 (Post-preliminary approval)</p> <ol style="list-style-type: none"> Registration Certificate Proof of membership in Chamber Commerce/Industry Original copy of the lease agreement Required formal pre-approvals according type of work/ activity the business will operate

B) FULL FORMALIZATION

The following steps are required to make the business fully formal and operational:

Steps required	Authority in charge	Requirements
- Registration with the SSC for the enterprise & for each employee	SSC	Company registration certificate, Professional license, Business official seal, Employees salary schedule, Authorization of a liaison officer and signatory
-Labour permit for non-Jordanian workers -Form for visa purposes.	Ministry of Labor	-Professional license, Two copies of worker contract, Health certificate for worker, Worker's passport, (If agricultural worker: official letter for agricultural workers)
-Unified Tax Number (mandatory) -General Sales Tax Certificate.	Income and General Tax Department	Company registration certificate, Copy of trade name certificate if available, Location lease contract if available, Copy of professional license, Export license if available, Salary certificates and social security for employees
-Connection contract -Electricity connection	National Electricity Company	Valid occupational permit, Company registration certificate, Property title, Personal ID, Cadastral map, Zoning map/land survey for outside zoning, Lease agreement if renter applying in his/her own name, Copy of electric bill for nearest neighbour
-Connection to water and wastewater	Ministry of Water and Irrigation	Valid occupational permit, Company registration certificate, Cadastral map, Zoning map, Copy of building lease, Property title; Personal ID.

Source: USAID. *The Start-up Guide*. Local enterprise Support Project (<https://jordanlens.org/activity/start-guide/>)

II. Implementation of registration/formalization procedures constrain business creation

The registration and formalization procedures laid out above testify to a simplification of previous regulations. In particular, the length of related procedures have been reduced and Jordan has promoted the establishment of limited liability companies, setting a minimum capital of only 1JD as a means of protecting the livelihoods of involved partners. However, several challenges related to current regulations and to their implantation remain, contributing to the fact that, as reported by UNICEF (see bibliography), a majority of youth trying to open a business (up to 51 percent) in Jordan fail to start it and 42 percent started but failed to sustain it. Moreover, as indicated by the survey conducted by the Global Entrepreneurship Monitor/Jordan National Report 2019/2020, only a minority of Jordanians (37 percent) believe that it is easy to start a business in Jordan and almost two-thirds of them (62.1 percent) acknowledge that they would not start a business for fear it would fail. Compared with other Middle Eastern countries, Jordan does not fare well on such indicators with other neighboring countries: in 2019, the perceived opportunity to start a business within the Jordanian population was the third lowest in the Arab region, and fear of failure the second highest. The identified registration/formalization challenges are the following:

- *Delays during pre-approval and registration phases (I and II of the registration and licensing table above):* Although the time spent to register a company seems relatively short, it may be extended in the pre-approval phase and/or following any impromptu involvement of the Ministry of Interior for security reasons. There are no clear regulations concerning security clearance procedures. These usually take between 1 and 2 weeks. In the case of non-clearance, the registration process is terminated.
- *Problematic vocational licensing stage (V):* Not only does the approval procedures require several steps and documents and imposes requirements such as the office space require-

ments; they also often take longer than the 1 expected weak, up to several months, and it involves a series of (rather uncoordinated) steps conducted by several municipal departments and other relevant line ministerial and professional actors (such as the Public Service Directorate, professional associations, sectoral product inspection services in charge of verifying the adequacy of the enterprises' facilities in terms of zoning, health and safety standards, as well as the quality of its products (the Food and Drug Administration in the food sector, for instance). These (sometimes lengthy) inspections often entail technical adjustments and additional costs.

- *Costly social security contributions:* The level of mandatory contributions for being registered with the SSC is considered high by many owners of enterprises and employees: 21.75% of the employees' income for all of the SSC programs, including 17.5% for pensions, disability, and survivors' component, 0.75% for the sickness and maternity component, 2% for work injury component and 1.5% for the unemployment insurance component. Employees contribute 6.5% of the old-age component (the full 17.5% for the self-employed) and 1% for the unemployment insurance component – the employers the remaining 14.25%. The relatively high level of contributions is one of the main causes of informal employment, be it in formal or informal enterprises.
- *Costly work permits:* The relatively high fees for the work permit imposed on non-Jordanian workers (except Syrian refugees and "ex-Gazan" displaced persons), from 450 JD to over 700JD (in case of foreign workers with Jordanian guarantors - *kafeel*) and up to 2,200JD (foreign workers without *kafeel*) is also said to favor informality. In 2020, about 80 percent of the non-Jordanian workforce was reported to be informal.

III. Additional factors constraining business creation and government responses

In addition to those registration/formalization challenges, other factors constrain the creation of new enterprises:

- *Lack of access to financing: Banks are generally reluctant to support and sustain the additional risks entailed in the creation and development of MSMEs. Such enterprises represent more than 95 percent of the private sector and contribute to nearly 50 percent of GDP, and yet receive a very low percentage of the total value of commercial loans. The government has provided financial support mechanisms to such enterprises, including the Development and Employment Fund since 1989, the Microfund for Women since 1996, the Rural Economic Growth and Employment Project since 2014, the Central Bank-funded Stand-Up Project since 2019, and other internationally-sponsored schemes (such as the Nomou Fund managed by GroFin created in Jordan in 2014). Moreover, because a minority of small entrepreneurs have an account with a financial institution (women and youth more especially), digital credit instruments have been developed. However, this business development and financial services have not met all existing needs. Entrepreneurs still struggle to access financial support to start (and develop) businesses. Relatives and friends often are the main sources of funding during the early stages of business development.*

“ The main reason for blocking the economic sectors is the confusion caused by the government and its bureaucratic measures that are relatively high for the size of the Jordanian economic sector. The recommendations put forward by government agencies were and still are to work on solving the problems of poverty and unemployment, but the solutions remained just theories without any implementation on the ground, how so if it took me 8 years to license one of my projects and solve the legal dilemmas that are incomprehensible to me. All this cause delay in the solution and loss of opportunities for the employer.”

Michael Nazzal,
Investor and Board Member at
the Jordanian Businessman Association

- *Poor entrepreneurial training culture: As attested by several recent studies, a majority of Jordanians state they are interested in entrepreneurship and assert that they have the*

knowledge, skills, and experience required to start a business. In reality, observers state that the actual entrepreneurial knowledge and culture amongst Jordanians, the youth more especially, is poor entrepreneurship spirit amongst them is limited. This assessment is validated by the fact that, according to the survey conducted by the Global Entrepreneurship Monitor/Jordan 2019/2020, a vast majority of Jordanian entrepreneurs who are starting a business (92.2%) or established entrepreneurs (93.8%) admit that their activity does not originate from a genuine professional calling; entrepreneurship is only an alternative to the lack of jobs in the public and private sectors. However, entrepreneurship has failed to curb unemployment rates, especially amongst youth (at 49.3 percent amongst the 15-24 age range): according to UNICEF, only 5 percent of them succeed in sustaining businesses. To support small entrepreneurs technically, a governmental agency, the Jordan Enterprise Development Corporation (JEDCO) was created in 2012 to support SMEs by disseminating information, human resource development and promotion, and advice on the packaging. JEDCO also supervises the Governorate Development Fund, which focuses on SMEs support in rural areas. In recent years, the entrepreneurship ecosystem has been enriched with an emerging set of private/NGO/government-led training centers, incubators (20 establishments), and accelerators (8 establishments) of MSMEs and start-ups that are being supported by the National Incubation Programme established by the Ministry of Digital Economy and Entrepreneurship. However, those institutions are not evenly distributed across Jordan, most of them being concentrated in the largest urban centers (Amman, Irbid, Zarqa).

- *Lack of recognition of the specificities of home-based enterprises: Jordanian authorities have also sought to support entrepreneurship by formalizing previously unrecognized types of enterprises since 2011. This is the case of home-based businesses (HBB) in the intellectual (free-lance consulting, software development, etc.), food processing, handicrafts, and domestic services. However, aside from a few facilities in the registration phase (registration with the Chamber of Commerce is not required for instance), HBBs are submitted to the same registration and formalization regulations as other enterprises - generally as individual, limited liability companies or general partnership enterprises. Licensing, especially with regard to zoning and architectural requirements, is even more constraining.*
- *Lack of recognition of social enterprises: Despite growing interest of Jordanian youth in social entrepreneurship, namely enterprises that combine societal goals (oriented towards social, ethical, public health or environmental issues) with an entrepreneurial spirit, and whose main objective is primarily to have a social impact rather than directly make a profit for their owners or shareholders, the authorities have not yet recognized them as such. Social enterprises are thus treated by authorities as any other profit-making enterprise.*

IV. RECOMMENDATIONS

The following programmatic and operational recommendations aim to overcome the obstacles mentioned in the previous section:

➤ **Create a more favorable environment by facilitating the registration process and procedures:**

- **Statutory time limits:** The time frame for the different registration procedures should be governed by the “silence is consent” principle, whereby non-response of any relevant authority within the ascribed time frame is to be considered as an approval. This would prompt the authorities, including security bodies, to be more efficient, especially in the licensing phase of registration.

“We need to work on improving societal culture regarding some sectors that the labor market needs, and encourage all forms of education equally (academic, vocational, technical) as it is the key to all solutions. We need to implement comprehensive solutions that include all sectors (governmental - private - civil society organizations) and not every sector separately. The government has already started activating the electronic system in its institutions and moving away from traditional forms of work.

We should promote entrepreneurship and provide financing with the aim of creating an encouraging investment environment, for example, establishing incubators for entrepreneurial businesses with adequate facilitation for young people to overcome registration obstacles and high costs.”

H.E. Samir Murad,
Former Minister of Labour in Jordan

- **Streamline the vocational licensing component of the registration process (V):** the various procedures involved in the acquisition of the vocational license should be better planned and

coordinated amongst the various relevant authorities involved, and made more transparent. They should also require fewer documents and not necessarily impose on entrepreneurs’ office space.

➤ **Pursue efforts to make aspiring entrepreneurs more familiar with the world of enterprise:** information sessions in schools, universities and social centers should be conducted across the country, aimed at making youth familiar with the world of the enterprise, including registration and formalization issues, access to local and regional markets, the notion of start-ups and innovation, the entrepreneurship ecosystem, the notion of risk, etc.

“Attention must be given to regulating, not legislating, the labor market. Efforts should be exerted toward automation, as it is the main solution for the informal economy to issue an executive program that translates the vision of economic modernization, which would be one of the solutions to the unemployment crisis. Employment strategies must be implemented, procedures re-engineered, moving away from nepotism and favoritism, towards administrative development and encouraging the investment environment by providing financing, reducing taxes, and halting bureaucracy are all solutions to the unemployment crisis.”

Ghassan Nuqul,
Businessman, Chairman of the board of trustees at the Crown Prince Foundation

- **Towards a more even geographical distribution of incubators and facilitators:** the establishment of incubators and facilitators of enterprises ought to be promoted with a more even dissemination of such institutions across the urban and rural governorates of the country.
- **Increase efforts to provide young entrepreneurs, female entrepreneurs more especially, with access to finance:** Home-based businesses and social enterprises (see below) should be prioritized. In parallel, it would be important to assess the impact of the various public, private, and civil society financial instruments that have aimed to support MS-MEs for a decade and adapt their targeting and operational aspects accordingly.
- **Recognize the specificity of home-based businesses:** the precarious nature of home-based businesses should be recognized, entailing facilitated and less costly registration procedures, and specific financial support.
- **Recognize the existence of social enterprises:** the notion of social enterprises should be recognized and defined by Jordanian legislation according to agreed-upon standards. Given their added value as community-serving institutions, they should also be granted secured preferential treatment, such as lower costs of registration and taxes, and provided with specific financial support.
- **Towards a fragmented social security package for small entrepreneurs:** to make registration with the Social Security Corporation more attractive, the choice should be given to entrepreneurs with limited financial means to opt for less than the full social security package and a lower level of contribution.

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